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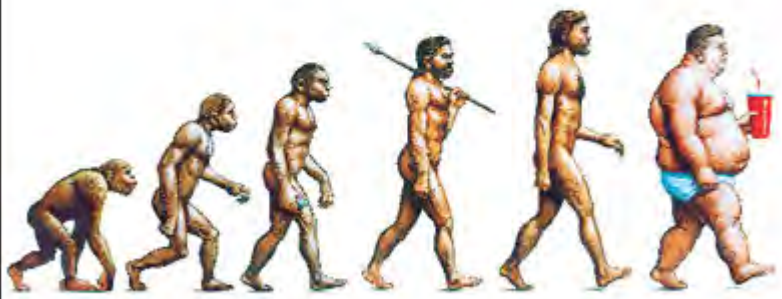

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Politics this week

Dec 11th 2003
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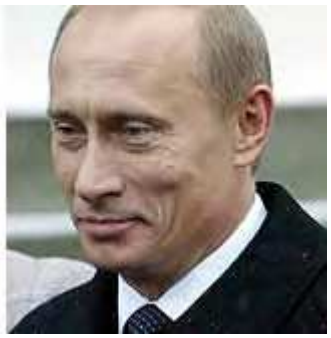
Putin's choice

AP



Russia's general election produced a landslide for parties sympathetic to President Vladimir Putin. United Russia, the most pro-Kremlin party of all, won almost half the seats in the lower-house Duma. Mr Putin's allies now have a two-thirds majority, enough to push through economic reforms if he wants—but also to change the constitution and lengthen his stay in office, though Mr Putin denies any such plans.

See article: Vlad the Victorious

Less than a week after a suicide bombing killed 44 people on a train travelling near the rebel republic of **Chechnya**, another suicide bomb killed six people and injured several others in central Moscow.

Negotiations continued ahead of this weekend's European Union summit, which is meant to approve a new **EU constitution**. As positions hardened, few insiders were willing to bet on a successful outcome. A new Eurobarometer poll showed that less than 50% of Europeans reckoned their countries' membership of the EU was a “good thing”, an all-time low.

See article: The issues at the European summit

The **Swiss** parliament elected Christoph Blocher of the far-right Swiss People's Party to the country's seven-man cabinet. Mr Blocher's party had won the biggest share of the vote in October's elections.

An independent commission on secularism, set up by **France's** government, has recommended a tightening of the existing ban on wearing the Muslim headscarf and other “ostentatious” religious symbols in schools and other public buildings. President Jacques Chirac may announce a new law next week.

See article: Banning the Muslim headscarf in schools

French anti-terrorist police arrested four leading members of the **Basque** separatist group, ETA. Spanish officials boasted of having “decapitated” the terrorist movement—though they have made similar claims before.

Dean's new friend

Howard Dean unexpectedly gained the endorsement of Al Gore as the Democratic presidential candidate. With only five weeks to go until the primary season begins in Iowa, the former vice-president said his party should rally behind the front-runner.

See article: Howard Dean and Al Gore

South Dakota's lone congressman, **Bill Janklow**, resigned after being found guilty of manslaughter in a fatal traffic accident. A special election to succeed the Republican will be held in June.

The California legislature voted down **Arnold Schwarzenegger's** fiscal plan, which included spending cuts and a proposed $15 billion bond issue. Meanwhile, Moody's downgraded the state's credit rating, criticising the new governor's decision to lower car taxes.

The Supreme Court upheld a **campaign-finance law** that restricts the use of “phoney issue advertisements”, “soft money” and other devices to get round spending limits.

See article: The Supreme Court weighs in

Gavin Newsom, a moderate Democrat, narrowly beat off a fierce challenge from the Green Party's Matt Gonzalez in San Francisco's **mayoral election**. In Houston, another Democrat, Bill White, saw off Orlando Sanchez, a Cuban-born Republican who had hoped to become the city's first Latino mayor.

See article: The San Francisco mayoral election

Nationalised pride

In a referendum in **Uruguay**, voters agreed by 60% to 35% to keep a state monopoly over the oil industry.

See article: Counter-reform in Latin America

Arnoldo Alemán, **Nicaragua's** former president, was convicted of fraud, money laundering and misuse of public funds and sentenced to 20 years in jail. He is currently under house arrest because of alleged “illness”.

In **Canada**, members of the Progressive Conservative Party approved a proposal to merge with a larger, more socially conservative rival, the Canadian Alliance. The combined party hopes to dent the Liberals' grip on power, which has lasted a decade.

Brazil's Congress approved a gun-control law. This imposes tighter restrictions on gun ownership and heavy penalties for infractions and envisages a referendum in October 2005 on a ban on gun sales.

On the war path

Japan's cabinet agreed to send up to 600 troops to Iraq within a year, its largest deployment since the second world war. The constitution bans the country from having an army or going to war, so the self-defence contingent will avoid combat and play a humanitarian role.

Chen Shui-bian, **Taiwan's** president, said that he would press ahead with a referendum next March calling on the mainland to stop its military threats against the island. The vote is perceived as a step towards independence. George Bush has criticised the referendum plan.

See article: America, China and Taiwan

North Korea said that it would freeze its nuclear programme in exchange for concessions from the United States, including fuel aid and its removal from the list of sponsors of state terrorism. China relayed America's own plan to the North. This is said to demand the dismantling of all the North's nuclear-weapons programme.

See article: Tough diplomacy over North Korea

In two separate incidents, American air strikes in the unruly south-eastern provinces of **Afghanistan** missed their Taliban targets. In Ghazni, nine children were killed, while another six died in a raid on Paktia. American-led troops launched “Avalanche”, the largest military operation so far in the south.

See article: Afghanistan's long journey

Fighting for jobs

The Pentagon excluded firms from France, Germany and other countries that opposed the war from bidding for contracts worth $18.6 billion for **rebuilding Iraq**.

See article: America and its allies

Iraq's American-appointed Governing Council said it would set up a special **war-crimes tribunal** without UN or international involvement. The announcement raised fears, especially among human-rights bodies, that the alleged perpetrators of atrocities under Mr Hussein's rule might not be fairly judged.

See article: Justice in Iraq

The Commonwealth refused to end **Zimbabwe's** suspension, citing Robert Mugabe's election-rigging and persecution of dissidents. Mr Mugabe said he would quit the body, which is composed mostly of former British colonies.

See article: What's the Commonwealth for?

Angola's president, José Eduardo dos Santos, was chosen as the ruling party's candidate for the next general election, whose date has yet to be fixed. Mr dos Santos, in power since 1979, said two years ago that he would stand down.

Reuters

Dozens of soldiers were reportedly arrested in **Guinea**, amid rumours of coup plots in the run-up to a presidential election on December 21st. The opposition is boycotting the poll, which they claim will be unfair. The president, Lansana Conté, is gravely ill; his death could spark unrest.

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Business this week

Dec 11th 2003
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Frozen assets

Yukos, a Russian oil giant, reportedly scrapped a $3 billion merger with Sibneft, a smaller rival, citing "technical difficulties". Sibneft hoped to run the new company; Mikhail Khodorkovsky, Yukos's largest shareholder and former chief executive, who is in jail awaiting trial on charges of tax evasion and fraud, disagreed.

See article: After the Russian elections

Parmalat's liquidity crisis, triggered when it admitted to a *euro*496m ($508m) investment in an offshore mutual fund, became an emergency. The Italian dairy-products firm nearly defaulted on a bond repayment, its credit rating was slashed to junk status and its finance chief resigned. The banks appointed Enrico Bondi, a specialist at rescuing failing Italian firms, to sort things out.

See article: Enrico Bondi and Parmalat

Transatlantic retreat

Ailing **Cable & Wireless** pulled out of the American market with the sale of its operations there to **Gores Technology** for just $125m. The businesses were acquired for $2.5 billion under the auspices of Graham Wallace, who was removed as chief executive in April for this profligacy. C&W may be wishing that it had remained a sleepy British telecoms company.

Global Crossing emerged from Chapter 11 bankruptcy after nearly two years. Government-controlled Singapore Technologies Telemedia paid $250m for a 61.5% stake in the company. Rivals complain that the firm will enjoy an advantage as debts of some $11 billion have been written off.

Flighty

Boeing turned out to have invested $20m in Trireme, an investment firm run by Richard Perle, a Pentagon adviser who subsequently defended Boeing's controversial deal to lease refuelling tankers to America's air force. The Pentagon was asked to widen its investigation of the tanker deal to cover other big contracts awarded to the aerospace giant in recent years.

Airbus confirmed that it is raising with the EU the issue of Japanese subsidies to Boeing for its proposed new medium-sized jet. Japan Airlines has said it is not interested in buying Airbus's new 555-seater super-jumbo.

Euro(not)next

Jean-François Théodore will stay on as chief executive of **Euronext**, one of Europe's largest stock exchanges, despite an agreement that called for him to step down in 2004. His heir apparent, George Möller, the chief operations officer, resigned in protest.

A German court ruled that **Deutsche Bank** should pay compensation to Kirch, a media firm that went bust last year. Before Kirch's collapse, the bank's top man had spoken disparagingly in public about its

creditworthiness

See article: The slow road to reform

The French government and François Pinault, a billionaire businessman, appeared to have reached an agreement with American prosecutors over the **Executive Life** affair.

Richard Syron, a former head of the American Stock Exchange, was named as the new chief executive of **Freddie Mac**. The giant government-backed mortgage firm's reputation and finances need restoring after an accounting scandal which cost the previous CEO his job. Meanwhile, the firm was fined $125m and admonished by its regulator.

UNdecided

At the start of the World Summit on the Information Society, UN member states postponed the vexed issue of who controls the **internet** until 2005. Currently, regulations and standards are decided by American companies perceived as too closely aligned with national interests.

See article: Internet governance

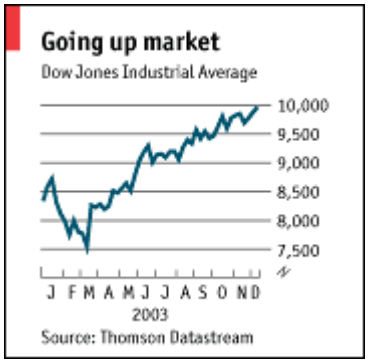
A worldwide ban on medical applications of **human cloning** was averted at the UN. A compromise was hastily stitched together which will postpone debates on a cloning treaty until next September.

Britain's **GlaxoSmithKline** and Germany's BI will grant licences for the production of cheap generic AIDS drugs in South Africa. In return, South Africa's competition watchdogs will let the firms off fines for anticompetitive behaviour in the pricing of their own AIDS medicines.

Transatlantic tit-for-tat

After America's concession on steel tariffs, the EU agreed to legislation that would allow the imposition of **sanctions** next March if America does not repeal its extra-territorial income exclusion. The arrangement, which provides tax breaks for American exporters, breaks WTO rules.

The Dow Jones Industrial Average briefly broke through the 10,000 mark for the first time in 18 months. But it retreated after the **Federal Reserve** kept interest rates unchanged. Some pundits claimed that the Fed's statement that the threat of falling prices had eased was meant to prepare markets for rate rises next year. The dollar hit new lows against the euro and a three-year low against the yen.



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The world's expanding waistline

The shape of things to come

Dec 11th 2003
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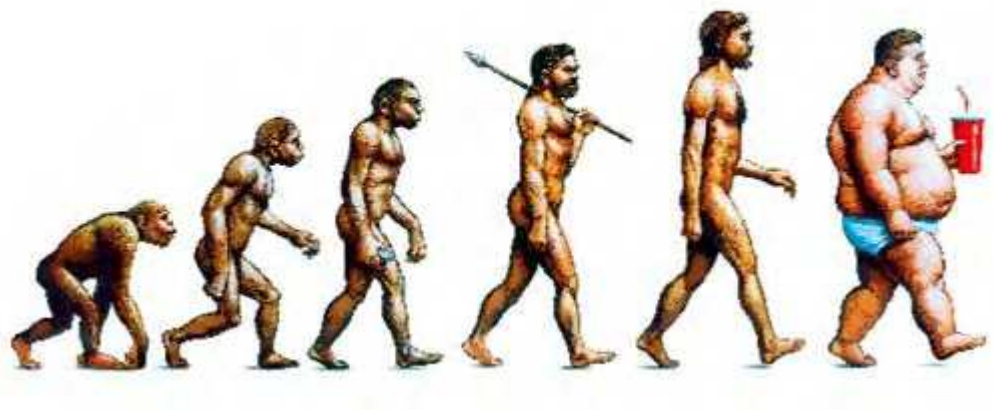

The world is too fat. Too bad

WHEN the world was a simpler place, the rich were fat, the poor were thin, and right-thinking people worried about how to feed the hungry. Now, in much of the world, the rich are thin, the poor are fat, and right-thinking people are worrying about obesity.

Evolution is mostly to blame. It has designed mankind to cope with deprivation, not plenty. People are perfectly tuned to store energy in good years to see them through lean ones. But when bad times never come, they are stuck with that energy, stored around their expanding bellies.

Thanks to rising agricultural productivity, lean years are rarer all over the globe. Modern-day Malthusians, who used to draw graphs proving that the world was shortly going to run out of food, have gone rather quiet lately. According to the UN, the number of people short of food fell from 920m in 1980 to 799m 20 years later, even though the world's population increased by 1.6 billion over the period. This is mostly a cause for celebration. Mankind has won what was, for most of his time on this planet, his biggest battle: to ensure that he and his offspring had enough to eat. But every silver lining has a cloud, and the consequence of prosperity is a new plague that brings with it a host of interesting policy dilemmas.

As a scourge of the modern world, obesity has an image problem. It is easier to associate with Father Christmas than with the four horses of the apocalypse. But it has a good claim to lumber along beside them, for it is the world's biggest public-health issue today—the main cause of heart disease, which kills more people these days than AIDS, malaria, war; the principal risk factor in diabetes; heavily implicated in cancer and other diseases. Since the World Health Organisation labelled obesity an “epidemic” in 2000, reports on its fearful consequences have come thick and fast.

Will public-health warnings, combined with media pressure, persuade people to get thinner, just as they finally put them off tobacco? Possibly. In the rich world, sales of healthier foods are booming (see survey) and new figures suggest that over the past year Americans got very slightly thinner for the first time in recorded history. But even if Americans are losing a few ounces, it will be many years before the country solves the health problems caused by half a century's dining to excess. And, everywhere else in the world, people are still piling on the pounds. That's why there is now a consensus among doctors that governments should do something to stop them.

Diet by fiat?

There's nothing radical about the idea that governments should intervene in the food business. They've been at it since 1202, when King John of England first banned the adulteration of bread. Governments and people seem to agree that ensuring the safety and stability of the food supply is part of the state's job. But obesity is a more complicated issue than food safety. It is not about ensuring that people don't get poisoned: it is about changing their behaviour. Should governments be trying to do anything about it at all?

There is a bad reason for doing something, and a couple of good ones. The bad reason is that governments should help citizens look after themselves. People, the argument goes, are misled by their genes, which are constantly trying to pack away a few more calories just in case of a famine around the corner. Governments should help guide them towards better eating habits. But that argument is weaker in the case of food than it is for tobacco—nicotine is addictive, chocolate is not—and no better than it is in any other area where people have a choice of being sensible or silly. People are constantly torn by the battle between their better and worse selves. It's up to them, not governments, to decide who should win.

Get them young

A better argument for intervention is that dietary habits are established early in childhood. Once people get fat, it is hard for them to get thin; once they are used to breakfasting on chips and Coke, that's hard to change. The state, which has some responsibility for moulding minors, should try to ensure that its small citizens aren't mainlining sugar at primary school.

Britain's government is gesturing towards tough restrictions on advertising junk food to children. That seems unlikely to have much effect. Sweden already bans advertising to children, and its young people are as porky as those in comparable countries. Other moves, such as banning junk food from schools, might work better. In some countries, such as America, soft-drinks companies bribe schools to let them install vending machines. That should stop.

A second plausible argument for intervention is that thin people subsidise fat people through health care. If everybody is forced to carry the weight of the seriously fat, then everybody has an interest in seeing them slim down.

That should not be a problem in insurance-financed health-care systems, such as America's. Insurance companies should be able to charge fat people more, because they cost more. But group health insurance schemes, which cover most Americans, are forbidden, by law, to discriminate against fat people. The health secretary, Tommy Thompson, is trying to wiggle his way around this prohibition to allow health companies to give discounts to people on fitness programmes. He should not have to: rules that prevent insurance companies charging fat people what they really cost should go.

That leaves the question of what should happen in a state-financed health system. Why not tax fattening food—sweets, snacks and take-aways? That might discourage consumption of unhealthy food and recoup some of the costs of obesity.

It might; but it would also constitute too great an intrusion on liberty for the gain in equity and efficiency it might (or might not) represent. Society has a legitimate interest in fat, because fat and thin people both pay for it. But it also has a legitimate interest in not having the government stick its nose too far into the private sphere. If people want to eat their way to grossness and an early grave, let them.

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The Democrats

Howard and Al

Dec 11th 2003
From The Economist print edition

EPA

And why they make you yearn for Bill

THIS newspaper, like many Americans, has had something of a love-hate relationship with Bill Clinton. We endorsed him in 1992; but in 1998 we told him to “Just Go” after he got caught lying to the nation in the Monica Lewinsky saga. Now that Al Gore has endorsed Howard Dean, making him the hottest of favourites to win the Democratic nomination (see article), a terrible truth about Mr Clinton has dawned: perhaps the Democratic Party never really deserved the old rogue.

After all, before Mr Clinton, the Democrats seemed to have perfected a strategy for losing the White House: first choose a liberal (as Americans call leftish sorts) preferably from somewhere in the north; second, let a Republican from the faster-growing sunbelt win. Of course, there was Jimmy Carter; but the party leapt towards this Bible-clutching southerner only in a fit of post-Watergate moralism, and he won only by a whisker in 1976.

Then came a voice crying in the wilderness—or Arkansas, which in American politics is the same thing. A self-proclaimed New Democrat, Governor Clinton, championed the virtues of free trade, fiscal discipline, private enterprise and a stout foreign policy. His thinking embraced some bad ideas, such as a willingness to execute mentally impaired criminals, but in 1992 these showed that he was no old-style liberal.

As president, Mr Clinton did not always practise what he preached. Indeed, he started badly by getting stuck in a debate about “gays in the military” and promoting a well-meaning but hopelessly bureaucratic health plan—and got clobbered in the 1994 mid-term elections. But Mr Clinton shot back to the centre, embracing welfare reform and winning the 1996 election easily. Even allowing for the Lewinsky affair, he left behind a fail-safe way for his party to win elections: hug the centre and let the other side look like the extremists.

Where is that legacy now? In 2000, Mr Gore had seemed a logical successor—another southern New Democrat who had bullied Mr Clinton to keep the faith on welfare and the budget. Yet as a candidate he careered off to the left, promising to wage war on behalf of the people against the powerful—and lost the White House. Now infuriated by everything about George Bush (from that “stolen” election to the way he has “exploited” September 11th to push America to the right) the Democrats have once again hurled themselves to the left—and into the arms of another northern liberal, the mad-as-hell Dr Dean. Among the presidential candidates, only Joe Lieberman has stuck to the Clintonian message. Mr Gore had been expected to back his running-mate; this week, he plumped for Dr Dean.

From a Clintonian viewpoint, such a stab in the back might be justified if Mr Gore were to drag Dr Dean back to the centre. As governor of Vermont, Dr Dean was a confirmed Clintonian right down to his balanced budget, and Mr Gore is right to say that a united party would be stronger. If the anointer can persuade the anointee to drop one or two of his wilder ideas about trade and foreign policy, then so much the better. For America's sake, Mr Bush badly needs sensible opposition on a range of issues from civil liberties to fiscal policy.

The worry about the Dean-Gore alliance is not just about policy, but about style. Looking back, one great trait of the ever-more-saintly-looking Bill is that whenever Mr Clinton was defeated, he chose to get even rather than mad. He left the lunacy and the hatred to his conservative tormentors—and got elected. His heirs could do worse.

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America and China

The Taiwan test

Dec 11th 2003
From The Economist print edition

Getty Images

Both could do better in handling a democratic Taiwan

GIVEN their past dust-ups, it may come as something of a relief to see America and China, the two natural rivals of the 21st century, squaring off, not over capitalism versus communism (these days a lost cause in China too), but over bra quotas, television tariffs and currency pegs. Not so long ago, Chinese officials were busing in students to hurl stones at the American embassy in Beijing, and American warships were bobbing near Taiwan to fend off military threats to the island, which China claims as its own. This week George Bush gave China's prime minister, Wen Jiabao, a red-carpet welcome to Washington as one of a new generation of Chinese leaders that America can do business with. Yet without careful handling the Taiwan issue could rapidly return things to crisis-point—and this time Mr Bush could be partly to blame.

Mr Bush came to office worrying about the rise of China as a strategic competitor. Yet since the terrorist attacks of September 11th 2001, China has helped in the war on terrorism and says it will do more to halt the spread of weapons of mass destruction. And Mr Wen this week was expected to get America's warm thanks for its efforts so far—unavailing though they could yet turn out to be—to coax North Korea back into multilateral talks to end its nuclear dabbling. All this makes prickly relations more manageable where the two still don't see eye to eye: such as on China's still woeful human-rights record, or America's plans for limited missile defences to protect both itself and eventually its bases and allies in Asia and elsewhere.

So why has Mr Bush chosen this moment to pick a new fight with China over trade? And why did he make a point this week, with the autocratic Mr Wen beside him in the Oval Office, understandably beaming for the cameras, of wagging his finger at the referendum plans of the democratically elected president of Taiwan?

The short answer is that for Mr Bush next year is election year. On trade he has his political ear tuned, against his administration's better free-trading judgment, to loud criticism from manufacturers and congressmen who are complaining, with little evidence to back them up, that China's trade surplus with America and its artificially pegged currency amount to unfair competition. That allowed the astute Mr Wen, who publicly declined to go for tit-for-tat tariffs, to play to the Asian galleries as the grown-up—and the statesman.

On Taiwan, however, Mr Bush risks looking not just unstatesmanlike, but weak. America, China and Taiwan have long officially agreed there is but one China, leaving themselves mostly free to agree to disagree over whether it is one China, two systems, as China would have it, or one nation two states, as

many Taiwanese might prefer. America has always insisted that the matter be settled peacefully, and has promised to help Taiwan if it is attacked. But now the old one-China formula is under pressure from political change in Taiwan. And politics at home is complicating America's firm hands-off Taiwan message too.

Democrats versus autocrats

Taiwan's president, Chen Shui-bian, facing an election in March, itches to be a lot freer of China's unwanted embrace. Most Taiwanese do not back his independence dreams, if only for fear of what China might do. But emboldened by support for a democratic Taiwan in Congress, and by Mr Bush's greater readiness to sell weapons to its government and to allow its leaders to visit (albeit without the official fanfare accorded to China's prime minister this week), Mr Chen is hoping to boost his election chances against more China-friendly rivals by holding a referendum at the same time as the presidential poll, calling on China to end its missile build-up opposite Taiwan and drop all threats of force. This irks China, which sees all such referendum plans as barely disguised steps towards an eventual declaration of Taiwan's independence. Mr Bush, for his part, does not want a crisis in an election year, especially when he has his hands already full in Iraq and Afghanistan. So this week he said plainly that he opposed unilateral action by either Taiwan or China to change the status quo. In effect, the message to Mr Chen was, cool it.

In cynically picking a fight with China for his own re-election purposes, Mr Chen could ultimately put American lives at risk. If it is to be called on to stand by Taiwan, America is entitled to warn Mr Chen when it feels he is gambling too far. Yet America, no less than authoritarian China, is going to have to pay greater heed in future to the democratically expressed wishes of the Taiwanese people. And the demand that China drop its claim that the only alternative to peaceful reunification is forceful reunification is anyway supposed to be the basis of American policy too.

Mr Bush chose his Oval Office finger-wagging moment badly: it looked as if he was trying to please China for its diplomatic help elsewhere, rather than uphold the principle that Taiwan's future must be settled peacefully and with its consent. What a pity he did not use his encounter with Mr Wen to deliver a public warning to China too: that efforts to coerce Taiwan into reunification are flatly unacceptable.

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Religion in France

Veil of woes

Dec 11th 2003
From The Economist print edition

MAXPPP

If France forbids Muslim girls to wear the headscarf at school, it risks making a large problem out of a small one

Get article background

IN FRANCE, a country with a generally benign climate, the headscarf is not usually worn for warmth. Rather, it is a symbol. For some people it is a symbol of religious devotion, for some of identity, for some of rebellion, for some of male domination, for some of immigration, multiculturalism and unFrenchness. So a decision to ban girls and women from wearing the headscarf in schools, hospitals and other state buildings would clearly be divisive. It would also be unwise. Yet such a decision is widely expected (see article).

The best reason for a ban is to emphasise the separation of church and state, or rather mosque and state, in a secular democracy. The French are not alone in seeing the merit of keeping religion away from the affairs of government. Americans, for instance, regard this separation as being fundamental both to non-believers' freedom from religious interference and to believers' freedom of worship. In France, secularism is intimately bound up with the traditions of republicanism and anti-clericalism that go back to the revolution of 1789. The fear then, of course, was of Catholic clerics, not Muslim ones, and Islam is hardly about to become the established religion of France. But you do not have to be a bigot or a racist to think that in a modern democracy Muslims, even more than others, should understand the need to keep man's laws separate from God's.

Yet does that necessitate a ban on the headscarf? After all, the right to declare your faith, in an unthreatening way, is surely a basic freedom, even for schoolchildren. And the wearing of a religious symbol by a child is a far cry from religious indoctrination by the state. Girls have for generations worn a small cross or crucifix on a chain round the neck. Is a headscarf—or yarmulke or turban—significantly different?

Yes, evidently it is, but not in a way that supports the true secularist's argument. It is different because of the many and various symbolisms it bears. Feminists dislike it because they see those who wear it as victims of male-chauvinist brothers and fathers, who militantly foist their views about women on their sisters and daughters. Racists see it as a concession to a group—brown and black immigrants—they would like to be rid of. And some decent but obtuse people see it as step toward a society they dread, even though it has long ago arrived.

The society these people believe in is one of homogeneous Frenchmen, some of whom happen not to be white, but all of whom are nonetheless, as though by magic, descended from the Gauls. The one they have got is a society of people of several cultures and religions, who are never going to be entirely assimilated and may not even be integrated if they suffer discrimination and exclusion. Easily the biggest group in this new society is the 5m Muslims, most of them North African in origin but many of them born in France.

Accepting these people as citizens with full rights and a place in society equal to all others may be the biggest task that French politicians have to face today. If they do it successfully, all sorts of other problems, from crime and terrorism to urban renewal and the treatment of women, will become easier.

One way to make the task harder is to alienate people who could be allies, such as religious leaders (the government is rightly worried that some imams are zealots whose values reflect the countries of North Africa and the Middle East in which they trained, not Europe). But another group, the young, may be more important: they are France's future. And one way to alienate the young is to forbid them to wear something: at once the wearing of it becomes an act of defiance. Thus Muslim girls will see the headscarf as a mark of their separate identity and a rejection of the rules imposed on them by an oppressive majority—just as Muslim girls in such countries as Iran, where the headscarf is obligatory in public places, see bare-headedness as a rejection of intolerant authority.

Religious apartheid?

Devout French parents can in theory send their children to religious schools where they may wear what they will. But only one such school exists for Muslims, and parents must pay. Even if religious schools were plentiful and free, they might be undesirable: would it really be wise to create a parallel school system whose students would be largely drawn from the country's poorest, most excluded and most Muslim group?

Some French people see the wearing of the headscarf as a grave attack on their beloved secularism. Others see it as the first step on a descent towards racial quotas and job-preferment, *à l'Américaine*. It need be neither. It can and should be seen as a simple human right, with no terrible implications.

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Offshoring

Stolen jobs?

Dec 11th 2003
From The Economist print edition

EPA

The rules of free trade apply to services as well as goods

IN AMERICA, in Britain, in Australia, an awful thought has gripped employees in the past six months or so: India may do for services what China already does for manufacturing. Any product can be made in China less expensively than in the rich countries. Is it merely a matter of time before any service that can be electronically transmitted is produced in India more cheaply too? As “offshoring”—a hideous word to describe work sent overseas, often outsourced—has spread from manufacturing to white-collar services, so the pressure on legislators to step in has increased (see article).

Manufacturers have used overseas suppliers for years. But now, cheaper communications allow companies to move back-office tasks such as data entry, call centres and payroll processing to poorer countries. India has three huge attractions for companies: a large pool of well-educated young workers, low wages and the English language. But plenty of other industrialising countries also handle back-office work. Moreover, given the pressure on costs in rich countries, offshore sourcing of services will grow: a much-quoted study by Forrester, a consultancy, last year predicted that 3.3m American jobs (500,000 of them in IT) would move abroad by 2015. And the quality of outsourcing will improve. Many of the jibes at Indian outsourcing today—about thick accents and unreliable technology—sound like the jeers at unreliable and ugly Japanese cars 30 years ago.

No wonder politicians are under pressure to discourage companies (and public agencies) from sending service work abroad. To do so, though, would be as self-defeating as stopping the purchase of goods or components abroad. For, although the jobs killed by outsourcing abroad are easy to spot, the benefits are less visible but even greater.

Like trade in goods, trade in services forces painful redistributions of employment. A study for the Institute for International Economics found that, in 1979-99, 69% of people who lost jobs as a result of cheap imports in sectors other than manufacturing found new work. But those figures are only for America, with its flexible job market, and leave a large minority who did not find new employment. Moreover, 55% of those who found new jobs did so at lower pay, and 25% took pay cuts of 30% or more. Some of the gains from free trade need to be used to ease the transition of workers into new jobs.

But those gains are substantial. Some arise simply from organising work in more effective ways. A fair part of the work that moves abroad represents an attempt by companies to provide a round-the-clock service, by making use of time zones. To that extent, offshoring directly improves efficiency.

In addition, a recent report on offshoring from McKinsey estimates that every dollar of costs the United States moves offshore brings America a net benefit of $1.12 to $1.14 (the additional benefit to the

country receiving the investment comes on top). Part of this arises because, as low value-added jobs go abroad, labour and investment can switch to jobs that generate more economic value. This is what has happened with manufacturing: employment has dwindled, but workers have moved into educational and health services where pay is higher (and conditions often more agreeable).

The thirst for the new

What of innovation, though? At present, most new products and services are developed in the rich world—and, indeed, predominantly in the United States. Many Americans fear that all those bright young Chinese and Indians will steal not just jobs but the rich world's most precious skills. One of the uglier side-effects of the growing hostility to exporting service jobs has been a move to reduce the availability of visas for temporary workers in skilled jobs and especially in IT, on the grounds that they transfer knowledge and skills back home, taking jobs and innovation with them.

To such fears there are two answers. First, some innovation will undoubtedly move abroad: the relocation of research and design, and the enormous increase in the numbers of highly trained graduates, will ensure that happens. But the transfer may be slower and more modest than xenophobes fear. Innovation needs the right culture to flourish. Chinese and Indians in California generate more new ideas than they do in their homelands. It may be that America's long tradition of embracing new ideas and new ways of doing things, combined with a willingness to question authority, ensures that the country continues to foster innovation more effectively than most industrialising countries can do.

Second, innovation abroad makes everyone richer. The British once feared the rise of America's industrial might: today, both nations are vastly wealthier than they were. In services, as in goods, trade brings benefits too great to refuse.

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Britain's public finances

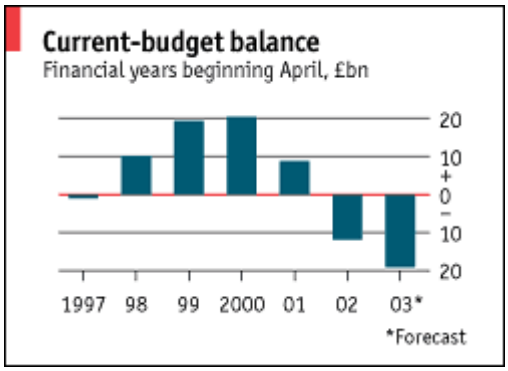
Gordon's golden fudge

Dec 11th 2003
From The Economist print edition

The chancellor's budgetary rules allow too much wiggle-room

WHEN Labour won power in 1997, Gordon Brown quickly won a reputation for prudence. Even when the government embarked on its public spending spree in 2000, some of that reputation persisted thanks to buoyant tax revenues. Time and again, the chancellor was able to report that the public finances were in better shape than his previous forecasts.

Mr Brown's reputation for prudence has taken a battering in Labour's second term of office. Since the election in 2001, the public finances have deteriorated dramatically. A chancellor who appeared able to walk on water has been floundering in red ink. Mr Brown's unhappy lot has been to admit to ever-worsening public finances, even though he raised social-security contributions this year by £8 billion ($14 billion).



On December 10th, the chancellor had more fessing-up to do. In his pre-budget report, he announced even higher forecasts for public borrowing. Mr Brown now expects the government to borrow £37 billion in the financial year ending next March—up from a forecast of £27 billion in April and £13 billion in his 2002 budget. Annual borrowing will be around £30 billion in the two financial years to spring 2006 even though the economy will be growing faster than usual.

Cause for alarm? No, says Mr Brown, the government is still on course to meet his two fiscal rules. The first is the “golden rule”—that the government will borrow only to invest and not to fund current spending. The second is that net public debt will be held at a stable and prudent level, which the Treasury has defined as less than 40% of GDP. Crucially, both are assessed “over the economic cycle”.

In a battle with the European Commission and fellow EU finance ministers, Mr Brown has insisted that his rules are more sensible than those of the European stability pact, which sets an upper borrowing limit of 3% of GDP. The chancellor has argued that for a country like Britain with relatively low debt and a run-down public infrastructure, it makes sense to borrow to invest. Furthermore, any limit on deficits should take into account the economic cycle. The collapse of the “stupidity” pact last month appeared to vindicate Mr Brown's stance—and came in handy, since his new forecasts show that Britain is now set to break the 3% borrowing limit this year.

The chancellor should go easy on the *Schadenfreude*. His rules may be more sensible than the stability pact's but they, too, are imperfect. Rules are pointless unless they have some practical effect in constraining governments. In Labour's first term, when the public finances were awash in surpluses, neither of Mr Brown's rules offered much guidance on the appropriate stance of fiscal policy. The chancellor could have announced an additional giveaway of £10 billion in his 2001 budget and still easily have met the golden rule, since he was then predicting a current-budget surplus of £16 billion.

The rules might be expected to bite now that the government is running big deficits. That would be to reckon without the fine print. Flattered by the chancellor's penchant for off-balance-sheet financing, net public debt will reach 33% of GDP at the end of this financial year, well below the 40% limit. That leaves Mr Brown plenty of wiggle-room.

All that glisters

The golden rule also turns slithery under close inspection. On an annual basis, the government is breaking it, since it will spend £19 billion more on current outlays than it will receive in revenues this financial year. But the rule does not say that the golden rule must be met every year but over the cycle—which, according to the Treasury, began in 1999 and will end in 2005. Conveniently this allows the chancellor to count the big surpluses amassed when revenues were buoyant in the dotcom boom against the deficits now being run.

This interpretation of the golden rule is shaky on two counts. First, it is far from obvious when the present economic cycle started, let alone when it will end. Second, the procedure of adjusting for the cycle is legitimate only if it strips out the impact of temporary shocks. It simply becomes an excuse for inaction when there is a permanent deterioration in the public finances, as seems to have occurred in Britain.

Few doubt that Mr Brown will eventually have to raise taxes by at least £10 billion. Few doubt that he will postpone this decision until after the election, due in 2005 or 2006. Fiscal rules that allow this degree of electoral expediency are not worth having.

Ultimately, the only sanction on governments that live beyond their means is the ballot-box. But voters would benefit from an independent watchdog (like America's Congressional Budget Office) to assess the health of the public finances. That would protect taxpayers better than fiscal rules set by the chancellor, the very person they are supposed to constrain.

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Letters

Dec 11th 2003
From The Economist print edition

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Fighting AIDS

SIR – You neglect the role of prevention in combating the HIV/AIDS pandemic ("Help at last", November 29th). This one-sided view reflects the current policies of the World Health Organisation and public discussion, which are dominated by the idea of making anti-retroviral drugs more widely available in developing countries.

The HIV/AIDS pandemic now affects around 42m people worldwide. The WHO's "3 by 5" strategy—treating 3m HIV infected people by 2005—and other well-intended projects are a response to an obvious need in the countries concerned. But they are a drop in the ocean in view of the current speed of spread of the infection in Africa and Asia.

Preventive action has often been discredited as ineffective. However, there are examples of effective policies in Uganda and Thailand. In most countries this has never been tried. More funding and high-level political commitment are needed. To achieve a sustainable impact on population health, efforts must be made by international agencies, donors and national governments alike to prevent the further spread of AIDS. Providing anti-retroviral drugs to a selected few is not a sustainable solution.

Christian Gericke
Berlin

SIR – You include homosexuality among "many of the practices" that contribute to the spread of AIDS in the Middle East ("Lifting the veil", November 29th). It is tiresome, not to say disquieting, that my sexual orientation is still presented as a means to spread AIDS. It is not homosexuality that helps to spread AIDS—it is unprotected sex, whether homosexual, bisexual or heterosexual. Through social scorn and repressive laws, homosexuals in Arab countries are marginalised and so are less able to benefit from prevention services and safe-sex messages. And by the way, homosexuality is not a practice it is a sexual orientation. Just like heterosexuals, homosexuals are what they are even without having intercourse with people of the same sex.

Luís Amorim
Brussels

Legalise it

SIR – You point out that more consistently punishing poppy growers and opium refiners in Afghanistan, and making trafficking harder, would change the risk-reward calculation in the drug business ("It's hard going straight", November 15th). The logic is faultless. Increasing the risk should move growers and traffickers from drugs to other activities. But this is not practical. The rewards are too high and the alternatives too few. Colombia's government has tried to make coca and poppy growers produce other crops with little or no success. Colombian farmers face the same problems of isolation and difficult terrain as those in Afghanistan, although Colombia is a country with far more resources. Drug legalisation would do far more to reduce the problem than a crackdown.

Bernardo Chiriboga
West New York, New Jersey

Unilateral distaste

SIR – The world has long been a difficult and dangerous place but America's policies demonstrably make that world more dangerous through their unilateralism and the downgrading of any common international interest ("Over here", November 22nd). This unilateralism produced a post-conflict effort in Iraq that showed contempt for virtually every lesson learned by a UN dealing with unprecedented challenges in the 1990s.

The only reason that the occupation has been "harder than expected" is because anyone with the specialist knowledge to say what could be expected was comprehensively sidelined. Equally, it is America's leadership, not the nation, that is responsible for pursuing a particular reading of the "selfish motives" that increasingly endanger Americans, Britons, and many others—and I do not refer only to terrorism. Such dereliction of duty in a leader is surely grounds for opposition?

Hamish Nixon
Kingston upon Thames, Surrey

Court report

SIR – You paint a distorted picture of American policy toward the International Criminal Court ("For us or against us?", November 22nd) . You quote an unnamed official lamenting that the ICC seeks only "benign neglect" from the United States. America's goal is simply to protect its citizens from the jurisdiction of a court to which it is not a signatory and whose precepts are inconsistent with American standards of constitutionalism. The bilateral agreements we use to do so arise from an unimpeachable source: the treaty that created the ICC itself.

John Bolton
Under secretary of state for arms control and international security
US Department of State
Washington, DC

Changing face of medicine

SIR – The trends in plastic surgery that you chronicle have a dark side ("Beyond Botox", November 22nd). Plastic surgery has been affected profoundly by the economics of publicly funded health care in the West. In a climate of ever diminishing public resources for health care, physicians of all stripes seek a back door to economic stability, often through cosmetic surgery. Unfortunately, as you say, the qualifications of some may be questionable. This trend has affected plastic surgery in three other areas.

First, junior doctors are now aware that a qualification in plastic surgery is a licence to print money by enabling them to circumvent payment ceilings and other constraints on the public system. This is reflected in both recruitment of candidates and the thrust of training programmes. Second, it can adversely affect relations between specialists who can perform these services and their senior colleagues who have no such option. The former may, as a result, find access to hospital facilities restricted. Third, and most important, patients may be harmed when services are prioritised economically in single-tier health-care systems like Canada's. It is hardly surprising that some plastic surgeons ask themselves why they should spend hours repairing a smashed face or grafting a severe burn (often at night or weekends) when they can enjoy many times the fee doing a facelift during normal working hours for a patient who appreciates and values it.

G. Allan Taylor
Kanata, Canada

Inactive service

SIR – Lexington is incorrect to suggest that George Bush was a draft dodger (November 29th). Mr Bush received a commission as a lieutenant in the Texas Air National Guard and trained as a jet-fighter pilot. His unit was not called to active service, as many were in Vietnam and today, but be assured that although a pilot commission is preferable to most enlisted service it is not a piece of cake.

Unfortunately, we Reserve and National Guard members, both enlisted and commissioned, are often pictured as inferior in training to regular soldiers. As a retired senior Reserve officer, I can assure you

that we civilian soldiers are of a calibre equal to our active-duty counterparts. Our class of service should not be regarded as draft dodging.

John Blackwelder
Statesville, North Carolina

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The Russian elections

Putin's way

Dec 11th 2003 | MOSCOW
From The Economist print edition

Reuters

Russia's experiment with parliamentary democracy, never full-hearted, is more or less dead. The country's wellbeing now depends more than ever on one man

Get article background

“WE'VE become apolitical. And that's a good thing.” Coming from Dmitri and Maria, a 31-year-old Moscow couple, these are chilling words. Twelve years ago they and their friends were on the streets, helping overthrow the Soviet Union. In elections they voted for either the social-democratic Yabloko or the pro-business Union of Right Forces (SPS), the self-appointed guardians of Russian liberalism. Since then they have turned into those parties' perfect target voters: a young middle-class family, jointly earning around $2,000 a month. But on December 7th, in the election for Russia's lower house of parliament, the Duma, they put their crosses next to the last of the 24 options on the ballot paper: Against All Candidates. Whoever won, they said, it would make no difference to their lives. “We came to vote just so as to keep out people like Zhirinovsky,” said Dmitri with a chuckle.

The results have probably astounded even them. Vladimir Zhirinovsky and his ultra-nationalist, ultra-misnamed Liberal Democrats nearly doubled their vote over the last election in 1999. Yabloko and the SPS, on the other hand, were wiped out overnight: both fell short of the 5% needed to get their party-list candidates into the Duma, leaving them with just a few seats each from the single-mandate districts that make up half the Duma. Even Against All Candidates, at 4.8%, polled more.

Close behind the Liberal Democrats came Motherland, a Kremlin-backed party born only a few months ago. Led by Sergei Glazyev, an ex-Communist, and Dmitry Rogozin, a moderate nationalist, it did the job it was created for: snatching votes from the Communists, whose 12.7% vote was barely half what they won in 1999. The People's Party, a splinter of the main pro-Kremlin force, United Russia, got 19 single-mandate seats. The only non-surprise was that United Russia itself came first. Together with its single-mandate deputies, it has 222 seats, just shy of half the Duma.

The Duma that results is a democrat's nightmare: three parties whose only ideologies are an almost slavish loyalty to President Vladimir Putin and varying degrees of nationalism, plus one made of the dregs of seven decades of totalitarian rule. The two liberal parties were always small and their democratic credentials were often dubious; but, if ineffectual, they were at least loud. With so few seats, they will

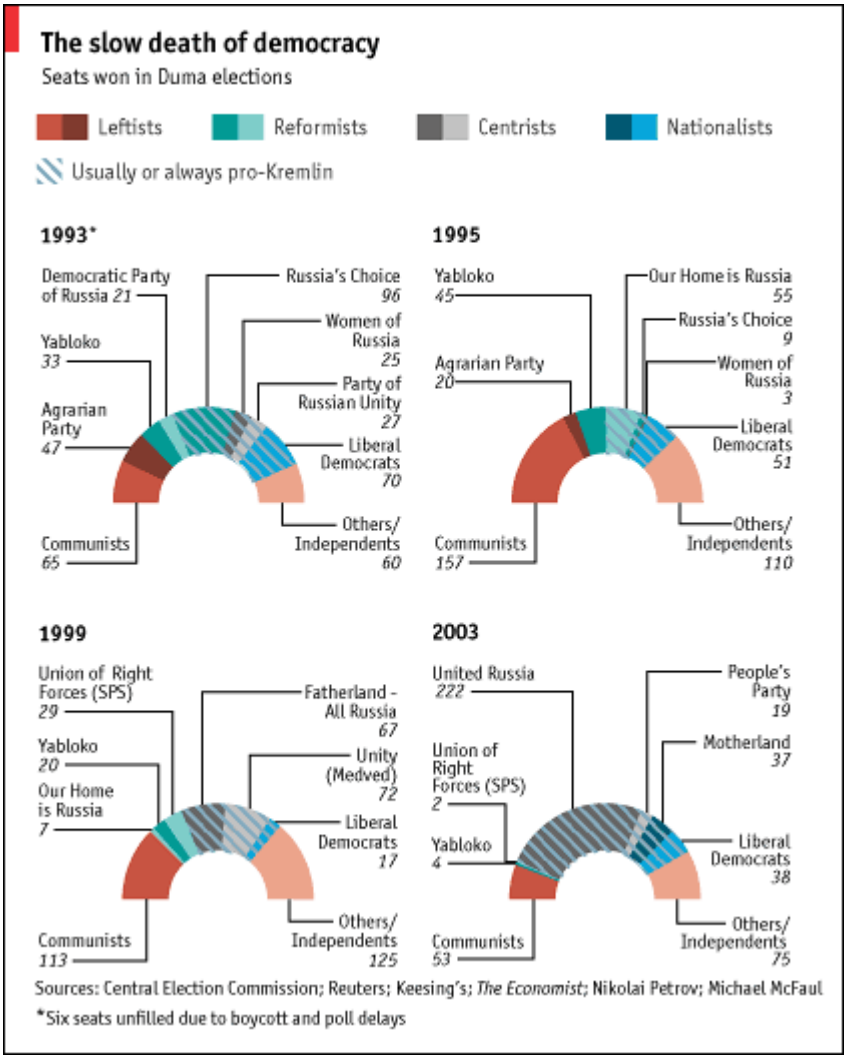
have even less influence; recovering it will be even harder; and blocking government legislation, good or bad, will be impossible. For the next four years, parliament belongs to Mr Putin and to those around him.

True, that was nearly the case before. And the liberals are much to blame for their own defeat. The shock of it may trigger a needed renewal. But, given Russia's history, it is not a good sign for the future.

Autopsy of a defeat

The elections have overturned a big assumption about Russia's democratisation. This was that as a middle class emerged, it would start to adopt democratic values and demand them from its leaders. A huge popular groundswell desired the fall of the Soviet Union, after all, and if those people were at first too busy surviving the aftermath to worry about democracy, prosperity would soon fix that. The 1990s did little to improve most Russians' lives, but under Mr Putin stability has returned, the economy has grown and a true middle class is appearing. So why did they not vote as they were meant to?

The answer is complex. One reason, of course, is that United Russia was the state's party. Mr Putin himself, defying the spirit, if never quite the letter, of the law, openly supported it. National, state-run TV stations blatantly ignored the law that requires equal media coverage for all candidates. In some regions the party polled more than double its national average of 37%, a strong sign of vote-fixing by zealous governors. In more remote areas especially, local bosses used strong-arm tactics such as making government workers campaign in their free time, on pain of being fired. Outside observers noted, and harshly criticised, all these things. Without them, say Yabloko leaders, their party would have cleared the 5% hurdle. The Communists are doing their own vote-count, which so far, they claim, gives both SPS and Yabloko more than 5%.



Recriminations are also flying within SPS and Yabloko. “There was a huge problem with the campaign strategy,” says Lev Shlosberg, the Yabloko candidate in the western city of Pskov. “We were repeating what we've been saying for the past ten years, instead of coming up with a new formula for the 21st

century.” Alexander Barannikov, an SPS Duma member who has lost his seat, has similar misgivings: “We couldn't get our message across to the 15% or 20% of people who had started to live well. We couldn't explain to them that their good life today isn't a given.” He thinks the campaign could have raised topics such as paying for health care and education—unpopular with most Russians, but something that the newly affluent might agree with. Indeed, Maria and Dmitri, who have a seven-year-old daughter, concurred: “None of the parties talked about health and education.”

In any case, the problem goes back further. It may have slipped below the magic 5% this time, but Yabloko has never reached double figures in ten years of fighting elections. Its rival, SPS, was only created for the 1999 vote, when it got 8.5%; but on that occasion Mr Putin, who was then prime minister, openly lent it his support. Without his help it collapsed. So why could the parties never tap their supposed core electorate?

Grigory Yavlinsky, the Yabloko leader, blames it on the fact that “When people saw what democracy looked like, they changed their minds about it.” The reforms of the 1990s created not a middle class but a super-rich elite and a poverty-stricken mass. Post-Soviet devaluation robbed millions of their life savings. State companies were sold off to a few rich bankers at a fraction of their value, in a rigged scheme, in return for their supporting Boris Yeltsin's re-election in 1996. The fact that it was seen as necessary to ward off the resurgence of communism didn't make it any less cynical. And the default and economic crash of 1998, just when things were starting to get better, only confirmed the average Russian's suspicions that it had all been for nothing. The fact that economic growth under Mr Putin has come with more centralised control and less press freedom only proves to many that even more authority is needed.

Also, the party system is young and, as youngsters tend to be, weak and messy. In the 1995 election alone, 43 parties ran. The 5% Duma barrier was designed to weed out the just-for-fun contenders, but even the bigger ones have mutated, merged and divided like bacteria, leaving the voter bewildered. United Russia, for example, was a confederation formed in the Duma by Regions of Russia, which had never run in an election; Unity, which is nicknamed Bear; Fatherland-All Russia, which itself used to be two separate parties; and the People's Party, which has now split off.

In such a system, ideology matters little, and it is hard for opposition parties to convince anyone that they really are the opposition, except by opposing. Yabloko and SPS, though, more often than not backed the government's reforms. Indeed, SPS was often the source of them. That was enough to make them look like its cronies.

Instead, it is faces that voters latch on to. The liberals' chief faces are Yabloko's Mr Yavlinsky, who after ten years as almost the sole front-man of Russia's social conscience resembles an embittered torch-singer; and SPS's Anatoly Chubais, who as deputy prime minister in the mid-1990s oversaw the privatisations that made the oligarchs rich. The chief face of the pro-Kremlin parties is Mr Putin, whose approval ratings still hover between 70% and 80%. No contest. Likewise, Motherland (fresh, young leaders) is thought to have lured voters from the Communists and Yabloko (old has-beens) thanks largely to Mr Rogozin's performance on television.

Then there are other reasons. Under the old Soviet *propiska* system, Russians can vote only in their place of permanent residence, which is usually where they were born unless they have bought property elsewhere. Yabloko and SPS's upwardly and geographically mobile voters, the people most likely to be living and renting in a different city, fall foul of this. Another nail in the parties' coffin was their bitter campaign squabbles, which dragged both of them down.

The final one was the long-running investigation into Yukos, Russia's largest oil company. Like most big firms it funded SPS and Yabloko, as well as the Communists, and had several of its staff among their parliamentary candidates. When prosecutors launched an attack on Yukos, culminating in the arrest in October of its boss, Mikhail Khodorkovsky, all those associated with the firm were tainted. The jailing of Russia's richest man proved popular with the masses: particularly useful as the interior minister, Boris Gryzlov, is also the head of United Russia. And both Motherland and the Liberal Democrats capitalised on the public's distaste for Mr Khodorkovsky by calling for increased taxes on natural-resources companies, a call that even some of SPS's members supported.

Power to the president

In short, fraud aside, the Russian people spoke on December 7th, and their message was that an all-

powerful president is just fine with them. So what will Mr Putin do with his new strength?

Answer: carry on as before, only more so. Having spent his first term securing the state's finances with the help of soaring oil prices, and with his re-election next March in effect guaranteed, he is now ready to push reforms that will spread wealth into the rest of the economy, says Chris Weafer, the chief strategist at Alfa-Bank in Moscow. These include closing tax loopholes that allowed the natural-resource companies to fill their wallets, while lightening the tax burden on everyone else; reinforcing the banking system to make it the driver of small business growth; investing in decaying infrastructure, especially the crumbling Soviet-era housing blocks and heating systems; putting more into education; streamlining the bureaucracy; overhauling the armed forces; and reforming the judicial system.

So it is no surprise that most foreign investors are pretty happy with the new Duma. Before, the government had to cobble a majority together from various hanger-on parties. Now United Russia is just four seats short of the simple majority needed to pass laws, and getting the extra votes will be no problem. Even if both Motherland and the Liberal Democrats say no, there are still 65 “independent” deputies, many of whom will happily freelance. Moreover, with the disappearance of SPS and Yabloko, big oil companies that had blocked the tax reforms—one reason, it is thought, why Mr Khodorkovsky earned the Kremlin's ire—have lost a lot of the deputies they hoped to control.

AFP

The news, brought to you by United Russia

But what if things go further? With all four of its puppet parties on board, the Kremlin will have the two-thirds majority needed to change the constitution. The Liberal Democrats' first step, says one of their spokesmen, will be to propose extending the presidential term to seven years. Mr Putin has said that the constitution will stay untouched; in any case, changing it requires the approval of most of the regional legislatures too, a lengthy process. Yet two years from now, if he thinks he needs more time for his reforms, he may be tempted to accept—oh, so reluctantly—the pleas of his loyal acolytes. And other measures, such as further curbing the power of regional governors or the legislature, may appeal to him too.

All the same, events may not have played out quite as the president wants. “I think Putin wanted Yabloko in the Duma,” says Michael McFaul of Stanford University, in California. It would have provided a symbolic balance and an appearance of pluralism to show the West. Ironically, almost all the parties in the new Duma are more left-wing than the president.

Which is why it may be less pliant than it seems. Motherland and the People's Party both represent the hard-line, security-services wing of the Kremlin elite. Their runaway success has emboldened their leaders. Motherland is already repeating its demands for even higher taxes on oil companies. With Mr Zhirinovsky, they may try to obstruct the break-up or privatisation of the state-owned gas and banking behemoths, Gazprom and Sberbank, both of which stand in the way of other reforms that Mr Putin wants.

They may also interfere in foreign policy, strengthening the hand of the Kremlin hawks against Mr Putin's more westward-looking approach. Or they may just demand jobs, pressing the president to fulfil a vague promise he made earlier this year to form his next government on the basis of the Duma election. Mr Putin must re-appoint his ministers after his re-election, and the prime minister, Mikhail Kasyanov, is reckoned to be ready for the chop; but the thought of shifty populists like Messrs Glazyev or Rogozin driving policy is not a happy one. The nationalists, says Nikolai Petrov of the Carnegie Endowment in Moscow, “could be a more serious enemy to the Kremlin than the Communists, who were a loyal opposition.”

For the next few months, therefore, all eyes will be on Mr Putin, to see whether he is as determined a reformer as he claims. But whatever the vagaries of the pro-Kremlin parties, and whatever the flaws of the anti-Kremlin ones, the emasculation of the Duma means one simple thing: politics will be less public than it was. And it is too enigmatic already.

The Yukos probes, for instance, bred a vast number of conspiracy theories about whether Mr Putin

ordered them, prompted by Mr Khodorkovsky's political machinations, or whether it was his henchmen, trying to wrestle the company out of the oil baron's hands, and why. By the time of his arrest, most observers had swung towards the political interpretation, only to be left scratching their heads again when the smaller Sibneft suspended a planned merger with Yukos at the last minute. This week, after reports that Sibneft had been trying to impose its own top management on the joint company, there were new reports that the deal was definitely off; but nobody is any clearer as to whether Roman Abramovich, the main Sibneft shareholder (and owner of England's Chelsea football club) was merely trying to get the most out of Yukos's weak position, or whether the Kremlin was using him as a lever to prise Mr Khodorkovsky's shareholding away. Either way, five months of uncertainty have rocked investor confidence.

Another example is the war on Chechnya. Opinion polls show that displeasure at Mr Putin's Chechnya policy is widespread. But public debate has been restricted to a couple of dogged newspapers and a handful of Duma deputies. Some of the most outspoken ones have been murdered; the rest are now outside. Yet, as another suicide bomb—killing five people right beside the Kremlin—reminded Muscovites this week, four years of having Russian troops bogged down in the rebellious republic has done nothing to end the conflict there, and has made ordinary Russians' lives more dangerous.

Death, yes; transfiguration, maybe

How can the opposition recover? Inevitably, there is much talk of phoenixes rising from ashes. Merger talks have started, for the umpteenth time, but many believe that Mr Yavlinsky and Mr Chubais have disagreed too deeply for too long to come together now. “I think a united block would get about 6% or 6.5%, not more,” says Mr Shlosberg. The leaders could possibly be jettisoned: but almost everybody else in the parties is too unknown, and now that they are out of the Duma it will be harder still to raise their profile.

The parties' behind-the-scenes influence will continue. Mr Yavlinsky and Mr Putin are said to get on well; Mr Chubais still heads the state electricity company, and has many protégés on the government's economic team. But becoming electable is another matter. “How we'll stay in the public eye for the next four years is something we'll have to decide,” says Mr Barannikov. “I don't see the way right now.”

The Communists, for their part, face even tougher questions. Though they are still in parliament, they lost as great a share of their electorate as the smaller parties did. They are now little more than a Duma decoration—and not a pretty one, either.

To some, all this confirms the suspicions that rather than being a flowering of democracy, the 1990s were just a momentary lapse of Russia's normal authoritarianism. Certainly for the next few years the real power struggles—above all, the fight to succeed Mr Putin—will take place within the pro-Kremlin factions, without serious challenges from outside. The new Duma does, therefore, have at least one advantage: it is reality. “Before, there was just an illusion of democracy,” says Lilia Dubovaya of the SPS. “I honestly don't know if things aren't better this way.”

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Relations with China

Mr Wen's red carpet

Dec 11th 2003 | WASHINGTON, DC
From The Economist print edition

Despite economic tensions, mutual trust between America and China has rarely been deeper. Can it last?

AMID bafflement, even outrage, from congressmen whose districts have been losing manufacturing jobs in droves to China, George Bush this week laid on what one of his officials called “spectacular” treatment for China's prime minister, Wen Jiabao, on his first visit to America. It included a 19-gun salute on the White House's South Lawn, a welcome no head of government (as opposed to a head of state) has been granted by this administration. Given the growing spats between America and China over trade and exchange rates, what is Mr Bush doing cosying up to China—especially with an election due?

The answer has to do with his changed view of the world since September 11th. In fighting Islamic terrorism, America has found China co-operative. China's leaders, after all, have their own Muslim problem: restive Uighurs in the western province of Xinjiang. America's once-loud criticism of China's harsh treatment of such “splittists” and other minorities, notably Tibetans, is now barely audible.

Then there is North Korea and its nuclear-weapons programme. China's attempts since last spring to use what economic and diplomatic leverage it has left with its old and infuriating Communist ally has earned Hu Jintao, the president, and Mr Wen the respect of the Bush administration, which wants to “internationalise” the issue.

That does not mean China has been successful. Six-way talks organised between North Korea, South Korea, Japan, Russia, the United States and China broke down in Beijing in August. This week, China was trying to broker a semantic formula that would bring North Korea back for a fresh round of talks in mid-December, and was again running into trouble with the Hermit Kingdom (see article).

Nevertheless, China's efforts over North Korea reflect a profound shift in its diplomatic style, away from a prickly, reactive response to the world to something more nuanced yet assertive. And this new approach has gained Mr Wen some support from Mr Bush over the issue that China cares about most: Taiwan. The island is praised by conservative America as a democratic exemplar; but China considers it a rebel province that must one day be brought back into the fold, if necessary by force.

Back in April 2001, before his Chinese love-in, Mr Bush let drop that he would “do whatever it takes” to defend Taiwan from mainland aggression. It was not only the Chinese who were shocked. Many of Mr

Bush's own diplomats tut-tutted that America's policy of “strategic ambiguity”—that is, a refusal to say exactly what its response would be to attempts by either China or Taiwan to change the island's status—had been severely compromised. Sure enough, later that day the president came out with some suitably ambiguous comments that muddied the waters again.

This week the administration publicly abandoned the “strategic ambiguity” that has lasted for a quarter-century. As Mr Bush put it, his administration's policy is now to oppose (unambiguously) any attempts “unilaterally to change the status quo”. American officials stress that this stricture applies to both sides, but, because of the way that Mr Bush said it, it did not sound that way to the beaming Mr Wen or to the furious Taiwanese.

Begin with the reasons why America felt change was called for. A senior administration official says that strategic ambiguity was failing to stop “the salami being sliced at both ends”. It was being cut away by China's military build-up on the mainland (it has 500 missiles aimed at the rebel island), and also by greater moves towards eventual independence in Taiwan.

Importantly, Mr Bush's newly unambiguous doctrine of enforcing the status quo was announced in the context of what he apparently saw as Taiwanese provocation. Mr Bush, with Mr Wen at his side, expressed his displeasure at the plan by Taiwan's president, Chen Shui-bian, to hold a referendum at the same time as Taiwan's presidential election next March. The referendum would call upon China to dismantle its missiles aimed at Taiwan, a democratic provocation that the Chinese view as a step towards independence.

Mr Bush, that great champion of democracy in the Arab world, seemed to agree that the referendum was too much. Neo-conservatives were furious. Mr Chen said he was pushing ahead with the referendum regardless: he can hardly back down now without greatly risking his re-election prospects.

Trade is not the only shadow hanging over the current love-in. Taiwan, now the source of so much amity, could turn nasty

However, the Chinese were delighted, which helps to explain why Mr Wen refused to get wholly agitated about the economic disputes between the two countries. America has a $125 billion bilateral trade deficit with China; China's “unfairly low” currency and “unfair” trading strategy are frequently blamed for manufacturing jobs being lost in states that are important to Mr Bush.

Last month, the Bush administration slapped protection on $500m-worth of imported Chinese textiles in a nakedly political move to protect American textile workers (although it was within the letter of World Trade Organisation rules). Meanwhile, pressure grows for a revaluation of the Chinese yuan. Half a dozen bills lurk in Congress that aim to impose tariffs on imports if China does not revalue the currency. Other resolutions would push China to open its market faster to imports.

Much of the blame that China gets in Congress for lost manufacturing jobs is misplaced. As the president's economic adviser, Greg Mankiw, has pointed out, most American jobs have been lost in industries—machinery, transport equipment, semiconductors—where Chinese competition is slight. What is more, a revaluation of the Chinese yuan would merely replace Chinese imports to America with those from other, more expensive foreign suppliers. The result of dearer imports would be more, not fewer, job losses in America.

Another factor in China's favour is the endless list of big American companies that have built up their supply chains in China—and see it as a huge market. A trade war is the last thing that Dell Computer or General Motors wants. Their voices currently seem to matter more than those of small domestic American manufacturers (tool-and-die foundries, for example) that keenly feel the Chinese threat. But with all the Democratic presidential hopefuls and plenty of congressional Republicans ready to bash China, Mr Bush will listen more to his political advisers, such as Karl Rove, than to his economists.

Trade is not the only shadow hanging over the current love-in. Taiwan, now the source of so much amity, could turn nasty. Should Taiwan's referendum go ahead (or Mr Chen's popularity rise) in a way that China interprets as a precipitous lurch towards independence, then military threats from the mainland may increase. The administration would then come under growing pressure at home to stand up for Taiwan, to China's confusion and fury.

In the longer term, geopolitical tensions could reappear between the two countries. Imagine if rotten North Korea implodes: that would probably please the Americans, because it would remove the nuclear threat, but would alarm China, because of the instability such an event would cause along its borders

(not to mention the prospect of American troops in a unified Korea).

Beyond that, if America's security situation changed, so might its current bonhomie with China. Some Chinese academics, always closer to their government than are American ones, say that as soon as terrorism and rogue states recede as a threat in American eyes, Washington will revert to a tougher line on China's ambitions across the Taiwan Strait. Peace in the world, American-style, does not necessarily translate into peace in Chinese eyes.

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How to lose friends and alienate people (contd)

You're not all right, Jacques

Dec 11th 2003 | WASHINGTON, DC
From The Economist print edition

Why Rwanda is more trustworthy than France and Canada

REVENGE, Paul Wolfowitz seems to think, is a dish best served cold, and possibly often. This week it emerged that the velociraptic deputy secretary for defence had published an order that bars firms from France, Germany, Russia and Canada from bidding for $19 billion-odd of contracts, funds that Congress recently voted for Iraq's reconstruction.

By coincidence, these four countries opposed America's unseating of Saddam Hussein that Mr Wolfowitz championed; and they still believe that the United Nations should have a more central role in Iraq's reconstruction, which he does not. By contrast, those famous multinationals from Rwanda, Uzbekistan and the Marshall Islands have been given a ringside seat at the bidding.

The ban, Mr Wolfowitz asserted, was “necessary for the protection of the essential security interests of the United States.” Limiting competition for contracts, he said, “will encourage the expansion of international co-operation in Iraq and in future efforts.” The promise of business, he seemed to be saying, should encourage countries to commit forces to future American-led efforts.

In practical terms, the ban from bidding for contracts to improve Iraq's communications, electricity grid, public infrastructure and legal system will not amount to much. Big, deep-pocketed American firms who know where Pentagon people like to have lunch were always likely to hoover up these contracts like every other sort.

On the other hand, French and Russian companies in particular have old ties to Iraq: France's Alcatel, for instance, built the telephone system. If nothing else, companies' original plans of installations that they themselves built will surely come in handy. Still, despite their dodgy nationality, they can always get work as subcontractors. Germany's Siemens, for example, has already won a $95m subcontract to build a turbine plant in northern Iraq for Bechtel, an American construction giant. Maybe Alcatel can shelter behind, say, Rwanda Semiconductor?

Even the White House, which was shown the directive, seems a little embarrassed by the timing. George Bush has just asked France, Germany and Russia to forgive old Iraqi debts. The Canadians are also furious because they have contributed money to the country's reconstruction.

On December 11th the Pentagon delayed a conference linked to the contracts, blaming scheduling conflicts. The task of sorting out this easily avoidable mess will now probably fall to Jim Baker, the Bush family's traditional fixer, who is dealing with Iraq's debts. It may tax even his dark talents.

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San Francisco's mayoral election

Almost Green

Dec 11th 2003 | SAN FRANCISCO
From The Economist print edition

A place in America where the only challenge to the left is from further left

AP

Newsom combed his hair, ignored Neruda—and won

IN THE end, San Franciscans pulled back from a second anti-establishment insurgency in California since the election of Arnold Schwarzenegger as governor. Even so, the election on December 9th for mayor of San Francisco, which seemed a foregone conclusion after the comfortable lead taken by Gavin Newsom in the first round, turned out to be unexpectedly close. Matt Gonzalez, Mr Newsom's challenger, lost with 47% of the vote. That was the closest a Green has come to an important elected office in America.

San Francisco, with its 780,000 residents, is not a huge city, not even the largest in the Bay Area (San Jose is bigger), and its mayor probably wields less power than his counterparts on the east coast. Nonetheless, San Francisco's race had a disproportionate importance this year. The city and its hinterland are the most liberal part of America's "left coast", the only big pocket of California that voted against ousting Gray Davis, for instance. This makes San Francisco "a barometer of what's going nationally on the left," says Bruce Cain, a professor at Berkeley. And that has Democrats worried.

Until recently, Mr Newsom—a protégé of Willie Brown, the current mayor, who must retire after two terms—seemed a shoo-in. He had the full support of the party machine; both Al Gore and Bill Clinton flew in to endorse him. He raised $4m in campaign funds, ten times what Mr Gonzalez mustered. He took clear, moderate-liberal stands on the issues: firm but compassionate towards the homeless, friendly towards business, and so on. Many see something Kennedyesque about him. Chic in a gelled way, with a photogenic spouse and a house in swanky Pacific Heights, Mr Newsom mixes easily with the city's glitterati.

In San Francisco, however, all this looked suspiciously conservative. Hence the sudden rise of Mr Newsom's challenger. Mr Gonzalez does not own a house but rents a pad in hippie Haight-Ashbury, which he shares with three roommates. He does not have a car, and does not wear a watch. Mr Newsom's hair is always perfect; Mr Gonzalez's is always messy. After university, while Mr Newsom was making good dough with his restaurant and retailing businesses, Mr Gonzalez used his Stanford law degree to be a public defender of felons. Last year, he declared $32,000 on his tax return. The day before the election he was seen buying a second-hand anthology of Pablo Neruda's poetry.

All this probably would have sufficed to make him the romantic hero of San Francisco's vegans, students

and ageing hippies. But he also tapped into a wider disillusionment with Democratic government. Like Mr Newsom, Mr Gonzalez sits on the Board of Supervisors, a sort of 11-person legislative body. But unlike Mr Newsom, who first joined the board because he was picked by Mr Brown, Mr Gonzalez got his seat by beating another Brown protégé in an election. Mr Gonzalez used to be a Democrat, but became a Green in 2000 and freely vented his disgust at what he saw as the corrupt machine of the mayor and his cronies. In 2002, he ostentatiously walked out of the mayor's state-of-the-city address.

This struck a chord with many of San Francisco's progressive voters. In their minds, the Democrats, locally and nationally, have lost their soul, and a Green reminded them of it. This puzzled Mr Newsom, who at one point wondered aloud how he could be for gay marriage, gun control and abortion choice but still be seen as a conservative in this city. It also cannot have gone unnoticed by a few Democratic presidential candidates, who are trying to figure out whether their most vulnerable flank is on the right or on the left.

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Campaign finance and redistricting

Judgment Day

Dec 11th 2003 | WASHINGTON, DC
From The Economist print edition

A moment that could define the way American elections are run

WHEN does the influence of money in politics become unconstitutional? And when does the same thing happen with gerrymandering? Those questions, both of which have been examined several times before, came up once again before the Supreme Court this week.

For decades, critics of American democracy have harped on about its failings: dismal turnout, hanging chads and, in general, the way that politicians set the rules of competition in their own best interest. December 10th 2003 will go down as an important day in the struggle to determine how far external rules can govern campaign finance and redistricting, two electoral practices that are famously open to abuse.

In both cases, proponents of reform argue that behind-the-scenes shenanigans shut ordinary voters out of politics. Both raise fundamental constitutional issues: freedom of speech in the first, and the principle of one man, one vote in the second. The Supreme Court has made one decision and will soon take another that will define the electoral playing field.

The most immediate impact came from its decision on campaign finance. The court supported the restrictions in the Bipartisan Campaign Reform Act of 2002, known as McCain-Feingold after its most relentless sponsors. That act banned “soft money”—contributions that avoid federal rules because they are nominally given to state parties. It also restricted “phoney issue ads”—advertising by interest groups before elections which purportedly advance a cause but are actually stealth attacks on candidates for office.

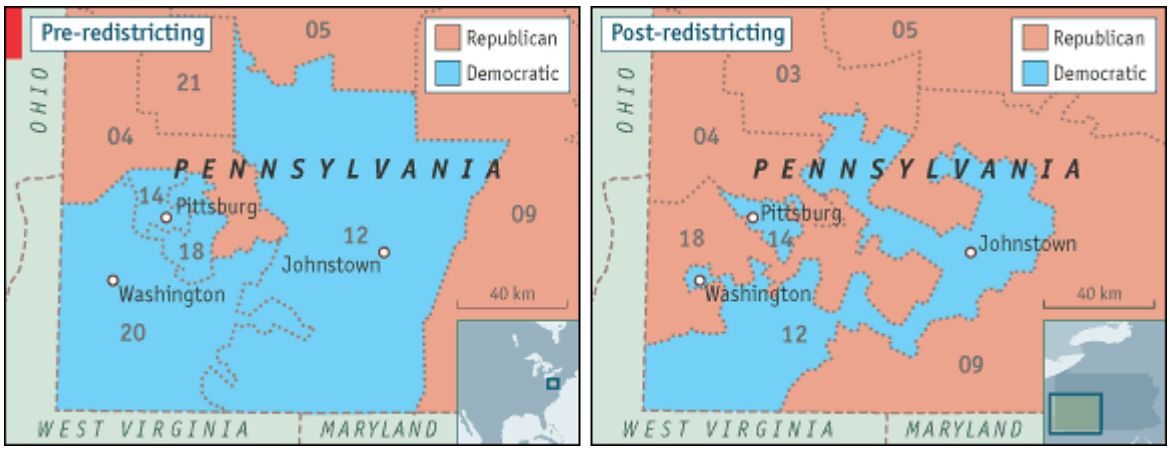
The high court long ago ruled (in *Buckley v Valeo*, 1976) that restrictions on political contributions were constitutional, though restrictions on spending were not. Now it has found, by its usual 5-4 majority, that the loopholes in campaign-finance law had indeed done damage. As the majority wrote, “contributions of soft money give rise to corruption and the appearance of corruption”. It found Congress had the power to redress these wrongs, since the resulting restrictions did not impinge upon rights of free speech or free association.

The ruling probably helps the Republicans: they are better at raising hard money than the Democrats are. However, upholding the ban on phoney issue ads produced howls of fury from interest groups on both left and right: the National Rifle Association called it the biggest infringement of the First Amendment since the Alien and Sedition Acts of 1798.

Now make the map fair

Does the court's bravery on campaign finance mean it will also support limits on partisan redistricting? In many ways, gerrymandering, which deprives millions of Americans of any meaningful vote, is a much worse abuse than money politics. The high court ruled that redistricting was within its purview in *Davis v Bandemer* (1986), and intervened to stop racial gerrymandering in the 1960s.

The case now before it was brought by a group of Democratic voters in Pennsylvania. They complain that, because of redistricting in 2001, Republicans won 12 of 19 congressional seats in 2002—even though the Democrats won back the governorship in 2002 by 53% to 44%. The new boundaries make an absurd mess of south-western Pennsylvania just to isolate the Democrats in two districts (see map).



Such gerrymandering, claim the Pennsylvania Democrats (somewhat hypocritically, as their party has done the same thing elsewhere when it has had the chance), is unconstitutional. It undermines the point of the House of Representatives, as described in Article One, which is that it is supposed to be the body most responsive to public opinion. But in 2002, very few incumbents lost their seats. Turnover in the House is lower than in the Senate, which was designed to be insulated to some extent from public mood swings.

The Democrats claim gerrymandering also undermines the First Amendment's guarantee of free association, since if free political association produces nothing, what good is it? And they say it violates the equal-protection clause, since it discriminates against one group of people—Democrats—on a statewide basis.

Nonsense, reply Pennsylvania's Republicans. The separation of powers means that elected politicians should (in general) have precedence over judges in political cases. The Founding Fathers gave state legislatures the power to draw district boundaries knowing perfectly well it would lead to gerrymandering. James Madison conceded that “whenever the state legislatures had a favourite measure to carry, they would take care so to mould their regulations as to favour the candidates they wished to succeed.” But he said the danger should be checked by Congress. And redistricting, unlike campaign finance, has not been checked by Congress (now, there's a surprise).

AP

Time at last for Feingold and McCain

The real question, say Republicans, is how you decide what is fair. The original decision in *Davis v Bandemer* was that plaintiffs must show “intentional discrimination against an identifiable group” and actual harm to that group. Republicans said there was no “intentional discrimination”. After all, some 42 Pennsylvania Democrats voted for redistricting. That is presumably because the wretches knew their own seats were safe, but it makes it hard to prove the map was partisan. As for the “identifiable group” of victims, was it all registered Democrats? Or just some? Lastly, insist the Republicans, you cannot use a single result to prove discrimination. Perhaps Democrats did badly because their candidates were feeble.

As Justice Antonin Scalia pointed out, even if you can show discrimination, what follows, if there is no constitutional remedy? Because of such questions, lower courts have interpreted *Davis v Bandemer* to demand a tough standard: plaintiffs must prove gerrymandering would shut a party out of politics

altogether.

The justices seemed reluctant to provide an answer to the question “what is fair?” In oral arguments, they rubbished one proposed “objective” standard (that redistricting could be held unconstitutional if a party that won 50% of votes consistently got less than 50% of seats). They seemed less hostile to another: that a redistricting plan might be unconstitutional if its sole justification was partisanship.

It may be revealing that the justices took the case at all. They have done so at a time when Texas's redistricting plan has stirred controversy and when the Colorado courts have just struck down a local gerrymandering scheme. Ever more accurate voting technology seems to be spurring on legislatures to redraw districts ever more often. This week the court tightened up the rules in one area of dirty politics, campaign finance. It must now decide whether or not to do so in another.

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Lexington

The anointed

Dec 11th 2003
From The Economist print edition

Al Gore makes Howard Dean awfully hard to beat in the race for the Democratic nomination

THE primary season has not even begun and Howard Dean is beginning to look unstoppable. He powered to the front of the Democratic pack by railing against the Democratic establishment. Now a portion of that establishment is responding by rallying behind Dr Dean. The outsider is becoming an insider.

On December 9th, the man who won the popular vote in 2000 stepped on to a stage in New York and endorsed the insurgent. Al Gore not only argued that Dr Dean has the best chance of getting the accursed George Bush out of the White House; he also urged the other eight candidates to stop taking pot-shots at the front-runner before a single vote has been cast. Why not just cancel all this primary nonsense and let the anointing begin?

Dr Dean's opponents naturally downplay the event's significance. At a debate in New Hampshire later that evening they ignored Mr Gore's advice, peppering Dr Dean with buckshot. They also point out that Mr Gore is not the first apparatchik to back Dr Dean. Two of the biggest public-sector unions have endorsed him. So have a clutch of black politicians. Dr Dean has also been cultivating support among the establishment by asking his registered supporters (who number more than 500,000) to donate money to Democrats in tight congressional races.

Yet Mr Gore's move marks a startling turning-point in the campaign. Dr Dean's insurgency has been haunted by two fears. The first is that a fire-and-brimstone campaign will be a disaster in congressional races. (Dr Dean hardly quelled this fear by describing Congress as “a bunch of cockroaches”.) The second is the fear that Dr Dean's appeal is limited to idle students and ageing McGovernites.

Mr Gore's endorsement goes some way towards defusing both fears. Mr Gore is a consummate Washington insider, a man who has served three successive eight-year sentences as congressman, senator and vice-president. He also won the popular vote in 2000 by dint of his ability to charge up the party's foot-soldiers, particularly trade unionists and minorities. Mr Gore, who won more black votes than even Bill Clinton, made his announcement in Harlem in a possible bid to help Dr Dean in South Carolina, where he is in a tight race. He then flew to Cedar Rapids to give Dr Dean a further boost in Iowa, where he is in a hand-to-hand fight with Dick Gephardt.

Mr Gore's endorsement was a bitter blow to Joe Lieberman, a man who not only spent a year of his life as Mr Gore's understudy, but who also delayed his entry into the current race until Mr Gore had decided

whether he was going to run or not. The blow was hardly lightened by the fact that Mr Gore did not even have the decency to tell his former running-mate of his decision. Mr Lieberman's bid now looks even vainer than it looked before.

Why did the quintessential insider plump for the mad-as-hell Vermonter? Partly because of policy. Dr Dean is echoing Mr Gore's rhetoric about re-regulating business and standing up for the people against the powerful. Partly out of opportunism. If Dr Dean wins in 2004, Mr Gore will have his pick of administration jobs; if he loses, Mr Gore will be well positioned to reclaim the leadership of his party's populist wing. (One intriguing parallel: Richard Nixon narrowly lost the presidency in 1960, endorsed Barry Goldwater in 1964 and pocketed conservative votes in 1968.) And partly out of an understandable thirst for revenge. If you had been cheated out of the presidency, wouldn't you support the man who was bashing the usurper hardest?

Mr Gore's endorsement is also an exercise in retrospective wish-fulfilment. Dr Dean is running exactly the sort of campaign that Mr Gore dearly wished that he had run in 2000: raw and from the heart. In 2000 Mr Gore slowly transformed himself from a cerebral New Democrat into a fire-breathing populist. After the campaign, he said he wished that he had had the courage to forget the polls and “just let it rip”. In Freudian terms, the Dean campaign is nothing less than Al's id let off the leash.

A party at war

This psychotherapy may soothe Mr Gore's restless spirit, but it still leaves his party in a power-struggle between the Clintonian centrists and Dr Dean's crowd. While Mr Gore has shot to the left, Hillary Clinton has been heading in the other direction, making hawkish comments about Iraq and praising Mr Bush's Thanksgiving trip to Baghdad. More fundamentally, the party has still not made up its mind why it lost the election in 2000. The Clintonistas think it was because Mr Gore failed to campaign on Bill's record of peace and prosperity. Mr Gore is convinced that it was because he did not blow the populist trumpet loud enough. As vice-president, Mr Gore presided over the creation of 22m jobs. Yet he thinks Dr Dean promises to “remake the Democratic Party as a force for justice and progress and good in America”.

Many centrists believe that a Bush landslide next year will rudely solve the Democrats' dilemma for them. Dr Dean will be revealed not just as a left-winger, but as a Pied Piper of nonsense. This, after all, is a man who argues one moment that America needs more troops in Iraq, and the next that “our troops need to come home”. Under this scenario, the newly moderate Mrs Clinton will ride to the rescue in 2008 on a centrist ticket.

The problem with this argument is that Dr Dean may well do respectably in 2004. For all his faults, he is a feisty campaigner, who has harnessed the power of the internet to raise money and has tapped into a rich seam of voter anger. Mr Bush has problems with both Iraq and the economy (which, though growing strongly, is still losing the sort of jobs about which people feel sentimental). The real nightmare for the Democrats is the most likely outcome—that Dr Dean loses, but by less than five percentage points. That would leave the party no more decided than it is today. You could call it the curse of Al Gore.

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Correction: Lurleen Wallace

Dec 11th 2003
From The Economist print edition

In Politics This Week (November 20th), we called Kathleen Blanco the first female governor in the Deep South. We overlooked Lurleen Wallace, who briefly succeeded her husband, George, in Alabama in 1967.

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Counter-reform in Latin America

Uruguay's bold new oil policy

Dec 11th 2003
From The Economist print edition

AFP

In a referendum that echoes the mood across Latin America, Uruguayans have voted to re-impose a state monopoly

THE question facing Uruguayans in a referendum on December 7th seemed dry: should they strike down a new law ending the monopoly of the state-owned oil company and opening it up to outside investors? The implications were not. “The future of our country is at stake,” said Carlos Fernández, a municipal worker in the capital, Montevideo, after casting his vote. Along with 60% of the electorate, he voted to repeal the law, aborting a timid liberalisation of the energy industry.

Uruguay is a small and tradition-bound country, whose economy has suffered a slump induced by Argentina's woes. But its vote was a clear sign of the times across Latin America. Retreat from free-market reform is starting to turn into its reversal, though so far only in small, isolated steps. The Dominican Republic has renationalised two electricity firms (see article). There is pressure in Bolivia for the state to take back oil and gas.

In Uruguay, one of the region's sturdiest democracies, the vote to re-impose the oil monopoly may foreshadow another nudge in Latin America's current drift to the left. It was a protest against threats to the country's European-style welfare state. It was also a rehearsal for a presidential election next October. Its outcome suggests that the Frente Amplio (Broad Front), a left-wing grouping that championed the referendum, will win power. That would end more than a century and a half of rule by two traditional parties. “What's happening is a transition to the first leftist government in [Uruguay's] history,” says Adolfo Garce, a political scientist.

The gradual erosion of support for the Colorado Party of President Jorge Batlle, and its parliamentary ally until recently, the conservative National Party, has been accelerated by economic calamity. Argentina's financial collapse of 2001-02 prompted Argentines to withdraw dollars they had parked across the River Plate. That triggered a run on Uruguay's banks, and a plunge in the currency. The economy shrank by 11% in 2002; unemployment hit 20%, and inflation eroded wages. Tens of thousands of the most energetic Uruguayans emigrated.

Recovery is now under way, as in Argentina. Uruguay's economy should grow by at least 4% next year. Unemployment has dropped to 16%. Unlike Argentina, Uruguay did not default on its public debt. With the help of the IMF, it organised, in March, a “voluntary” restructuring, in which the term of its bonds

was lengthened. To contain the debt, the government has set a target of a primary fiscal surplus (ie, before interest payments) of 3% of GDP.

The average risk premium on the country's bonds has fallen from a peak of 18 percentage points above the interest rate on United States' Treasury bonds to below six. Investors are no longer scared of Uruguay—but are they still wanted?

Tabaré Vázquez, a former mayor of Montevideo who leads the Broad Front, has said little about his economic plans. But the Front's championing of the referendum is a bad sign. Uruguay produces no oil. ANCAP, the oil company, runs a cement works, a whisky distillery and a refinery so inefficient that fuel costs 20% more than it should, according to the finance minister, Isaac Alfie. “To compete, we need to reduce the price of oil,” he says.

The debt will be the next government's first test, since its faces a bunching up of payments to official lenders, such as the IMF, from next year. The Front says it would restructure the debt, but how? It seems uncertain about which of Uruguay's neighbours to emulate. Brazil's soft-left president, Luiz Inácio Lula da Silva, has reassured investors by running budget surpluses to pay debt. Argentina's Néstor Kirchner has demanded a big write-down from creditors and threatened to default on loans from the IMF. “Let me see how Kirchner and Lula do in 2004,” says Alberto Couriel, a Front senator.

So far, Uruguay has escaped the pre-election jitters that pushed up inflation and interest rates in Brazil last year. That is partly because Mr Vázquez's presidency, if it happens, will come as no surprise. Still, if he does not reassure domestic and foreign investors early on “you could have a run on the banks,” says Arturo Porzecanski, an economist at ABN-Amro bank.

The Front claims to favour economic stability plus jobs. Mr Couriel sees these coming from exports, and not just from traditional beef and wool. A noble aim, but then the Front should be courting investment rather than shunning it. The referendum sits ill with its recent claims to moderation. Its outcome panders to Uruguayans' famous nostalgia, rather than equipping them for the future.

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Mexico's economy

Tangled in a murky past

Dec 11th 2003 | MEXICO CITY
From The Economist print edition

An untimely row over the central bank

Get article background

NOTHING is coming easily for President Vicente Fox just at the moment. His attempts to reform Mexico's tax system have triggered a split in the opposition Institutional Revolutionary Party (PRI), threatening to tighten a legislative gridlock. And now his desire to re-appoint Guillermo Ortiz, the central-bank governor, for a second term has met unexpected resistance—some of it from his own, conservative, National Action Party (PAN).

Paradoxically, nobody disputes that Mr Ortiz has done his current job well. Throughout his stewardship, which began in 1998, the Bank of Mexico has kept inflation within its target range. The figure for 2003 will be about 4%. Despite political uncertainties and recent economic stagnation, Mexico's finances have remained stable. That achievement owes quite a lot to Mr Ortiz's steady hand.

What concerns his critics is not Mr Ortiz's record at the bank, which has constitutional independence, but his actions as finance minister in the PRI government of Ernesto Zedillo, Mr Fox's predecessor. In that job, Mr Ortiz had to pick up the pieces after Mexico's messy devaluation and economic collapse of 1994-95. Criticism centres on the poor handling of the bank bail-out that followed.

To shore up the banking system, the government took over about $65 billion of its unpaid loans. Some of these were *bona fide* loans to individuals and businesses, who found themselves unable to repay when the currency collapsed and interest rates soared. But the bail-out also blessed dodgy banking practices: many of the loans were to friends and families of the slipshod bankers: only about 30% of the total were secured by any collateral. The taxpayer took responsibility for them all.

That angered opposition parties, which in those days included the PAN. Two dozen senators from the party argue that Mr Ortiz's reputation was permanently damaged by the bail-out. Others retort that, even so, this seems a strange time to return to the matter. None of the critics has ever raised specific charges against Mr Ortiz for his role in the bail-out. And holding his past service for the PRI against the governor is at odds with the PAN's longstanding support for taking the Bank of Mexico out of politics.

Even if most of the renegades vote against Mr Ortiz, he will still be confirmed, with the support of the PRI. Certainly in banking, as in many other matters, Mexico needs a reckoning with its murky past. But Mr Fox could have done without this particular fuss. Investors have already been shaken by the ructions in the PRI. This week the party's delegation in the lower house remained split into two warring blocks, under rival leaders. Even if the dispute is patched up, which no longer looks certain, Mr Fox looks to have no chance of winning the support he needs from the PRI for constitutional changes to deregulate energy and labour markets. That means that smooth continuity at the central bank would be welcome.

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Dominican Republic

A spectacular fall from grace

Dec 11th 2003
From The Economist print edition

An incompetent government and a tricky choice for the IMF

ONCE again the International Monetary Fund faces an awkward decision in a small Latin American country. Before the end of the year, it is due to rule on whether to resume a $600m loan programme agreed in August and suspended in October after the government, unannounced, paid out a similar amount to renationalise the country's two main electricity distributors. As so often, the Fund is on a hiding to nothing. Resume support, and it will be blamed for inevitable public-spending cuts—and for blessing a dodgy bank bail-out. Refuse aid, and it will be charged with casting adrift a fragile economy flirting with debt default.

The Dominican Republic has suffered a spectacular fall from grace. From 1996-2000, the economy grew by over 7% a year, led by tourism and duty-free assembly plants, making clothes and other goods for the United States. Then, growth stalled, along with the world economy. The government of Hipólito Mejía, of the centre-left Democratic Revolutionary Party, which took office in August 2000, responded with public spending, financed by foreign borrowing. That led to worrying, but still manageable, deficits. But the slowdown also exposed a massive bank fraud that has crippled the country.

Last April, the central bank belatedly took over Baninter, the third-largest commercial bank, which had suffered a run on deposits. It discovered a hole in the bank's accounts of some 60 billion pesos ($2.4 billion), equivalent to 12-15% of GDP. A third of the losses were generated in the bank's last three months, as its owners erased dodgy loans to themselves from the books and whisked transfusions of cash from the central bank to accounts abroad.

Baninter's owner, Ramón Báez, is in custody and awaiting trial. But many Dominicans doubt that punishment for the bank collapse will fit the crime. Mr Báez is very well-connected. He gave gifts or money to politicians, army officers and judges; after his arrest, many of them visited him in prison. The central bank showed similar generosity. When it took over Baninter, by law it should only have compensated depositors up to a ceiling of 500,000 pesos ($12,000). Instead, it guaranteed all the bank's liabilities, including offshore deposits. Three-quarters of this money went to 80 account holders.

Dominicans will soon feel the cost of that, as the government struggles to get its finances under control. The ratio of public debt to GDP has doubled to 50% under Mr Mejía. To close the fiscal gap, he has resorted to a 5% tax on exports and tourism, a 2% import surcharge and a tax on financial transactions. But receipts have been lower than expected. Businessmen are reluctant to pay more taxes as long as the government fails to cut its spending.

Mr Mejía's mind is on politics. Although unpopular, he is seeking a second term in an election due in May. His former supporters among the poor have been hit by the collapse of the peso, which lost half its value against the dollar last year. That has pushed inflation to 35%. Electricity blackouts have become more frequent. More than 20 people have died in clashes with police during protests this year against rising prices and job losses.

The protestors blame the IMF for their plight. They should blame Mr Mejía. Any money that the Fund might give to the Dominican Republic in the next few months is likely to be wasted on pre-election spending. Until the politicians show signs of taking responsibility for their actions, it is hard to see why they deserve any help from the Fund.

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The United States and the Americas

One history in two halves

Dec 11th 2003
From The Economist print edition

A new look at the New World

IT IS, of course, the global superpower, and an archetypal, if not always universally admired, democracy. But the United States is also an American country—just one of many, and not itself "America", *pace* this and many other newspapers. That all-Americas way of thinking about the "New World" was far more common until a century or more ago. Is it now about to undergo a revival?

In a short and stimulating recent book*, Felipe Fernández-Armesto, a British-based historian of Spanish descent, makes the case for "a common history of the Americas", north and south. He points out that until about 1760, the imbalance in wealth, power and civilisation in the hemisphere favoured the south. What reversed this was industrialisation and democratisation in the United States—helped decisively by an independence struggle that was less traumatic than those that followed two generations later to the south.

Some of what is commonly seen in Europe as "American exceptionalism" applies as much to the hemisphere (Canada sometimes apart) as to the United States. Mr Fernández-Armesto sees similarities north and south in, variously, the experience of slavery; religious enthusiasm; the massacre and survival of indigenous peoples; the open frontier; ranching; and republican institutions born of "an improbable mating of ideas, when creolism met and married the Enlightenment." And the United States owes such icons as its Thanksgiving turkey and the peanuts for its butter to Mexico and Peru respectively.

Statesiders used to be more conscious of their "Americanness". Thomas Jefferson hung portraits of Columbus and Vespucci at Monticello, his Virginia home. This awareness is returning as 35m migrants turn the United States into the fifth-largest country of Latin Americans.

This pan-American logic also lies behind an intriguing development at London University. On December 10th, its Council approved the merger of its (thriving) postgraduate Institute of Latin American Studies with its (faltering) counterpart for the study of the United States. The resulting Institute for the Study of the Americas will focus on both halves of the hemisphere, separately and together.

According to James Dunkerley, the director of the new institute, the flows of ideas, people, goods, services and culture are now so substantial as to help to give a distinctive character to the hemisphere as a whole. He sees value in the comparative study of subjects such as debt and bankruptcy codes, the re-election of presidents, and civil rights and multiculturalism. A comparative approach also involves "an implicit critique" both of dependency theory (which says that Latin America has been held back by the rich world) and United States' exceptionalism, he argues.

Nobody denies the huge gap in development that still separates the two halves of the Americas. But history shows that nothing is for ever. If the 20th century was "American" by virtue of the preponderance of the United States, "the 21st may be American, too, in a fuller sense of the word," concludes Mr Fernández-Armesto. Now there's a nice thought.

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* "The Americas: A Hemispheric History". Random House, New York, 2003. $19.95.

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Health in Canada

Paddle that canoe

Dec 11th 2003 | VANCOUVER
From The Economist print edition

Those super-fit British Columbians

AS THE rest of Canada settles in for the long months of snow, Vancouverites spend their mild December weekends hiking, cycling, playing sports or paddling their kayaks. So it may not be not surprising that residents of British Columbia, and especially those of its populous south-western corner, are the healthiest of all Canadians.

British Columbians are less likely to have heart attacks, diabetes or most forms of cancer, according to federal-government surveys. Only 16% of them smoke, fewer than elsewhere in Canada. They have healthier diets and are slimmer. Only 12% (9% in Vancouver) are obese, maybe because almost half take part regularly in a sport or an active recreation. With average life expectancy of 77 for men and 83 for women, they rank with the Japanese for longevity.

What has made British Columbians such paragons of health? A temperate climate (around Vancouver at any rate), a beautiful coast and mountains have always attracted outdoor types. Sports-mad Brits implanted soccer, rugby and field hockey, games in which this province dominates the rest. Norwegians brought skiing; Germans, hiking. Healthy living has become “a cultural trademark” of the west coast, says Art Salmon of the Canadian Fitness and Lifestyle Research Institute. “To be a British Columbian means to be active and to enjoy the outdoors.”

But for how long? British Columbians' health is still improving on most indicators, but not on all, said a report on November 27th from the provincial health officer. Diabetes, binge drinking and depression are all rising. Only 38% of British Columbians eat enough fruit and vegetables. And children tend to be fatter and less active than their parents.

That goes for Canada as a whole, where obesity among children has doubled since 1995 to 18%. British Columbians have no more success than parents elsewhere in weaning their children from computer games and junk food. A study of 1,100 Vancouver-area elementary school children by the University of British Columbia found that 40% were not active enough to be healthy, and that 36% of the boys and 28% of the girls were overweight. Heather McKay, its author, worries that in this generation, for the first time, children will have a lower life expectancy than their parents. Time for super-fit British Columbians to organise some family kayak expeditions.

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South-East Asia

Banking on education to propel a new spurt of growth

Dec 11th 2003 | BANGKOK
From The Economist print edition

Reuters

South-East Asia is looking for new ways to improve its people's skills

IF THE priorities of South-East Asia's politicians are anything to judge by, few subjects are more important than education. Mahathir Mohamad, the former prime minister of Malaysia, made education reform the centrepiece of his final year in office. Thaksin Shinawatra, his Thai counterpart, has churned through five ministers in three years in a desperate attempt to improve the local schools. Singaporean officials can barely open their mouths without mentioning “the knowledge society” and “lifelong learning”. The bit about education in the Philippines' constitution is longer than America's Bill of Rights.

No wonder. Before the crash of 1997, education was said to be propelling South-East Asia's breakneck growth. Now it is billed as the factor that could fuel another boom. In fact, the region's erstwhile tigers still scratch above their weight in educational terms. Two-thirds or more of all children in the Philippines, Malaysia, Thailand, and Vietnam attend secondary school, compared to around half in India and 68% in China. At the university level, the region's advantage is even starker (see chart below). Singapore regularly tops the tables in international comparisons of students' mathematical and scientific prowess.

So the crash did not affect education very severely. Despite the squeeze on public finances, government spending on education has actually increased in Malaysia and Thailand, and remained roughly stable in the Philippines and Indonesia. Few children have dropped out of school, thanks in part to temporary stipends from foreign donors. Demography has also been working in South-East Asia's favour: the number of school-age children has already passed its peak in Indonesia, Thailand and Vietnam, and will do so by 2010 in Malaysia and the Philippines.

But South-East Asian leaders are terrified that their countries will lose out on foreign investment and economic growth unless they produce more skilled workers. So they want to improve the quality of teaching and keep children in school longer. Thailand, for example, has just extended compulsory public schooling from nine to 12 years and is considering providing up to 15 years' free education. Malaysia is targeting 40% university enrolment by 2010.

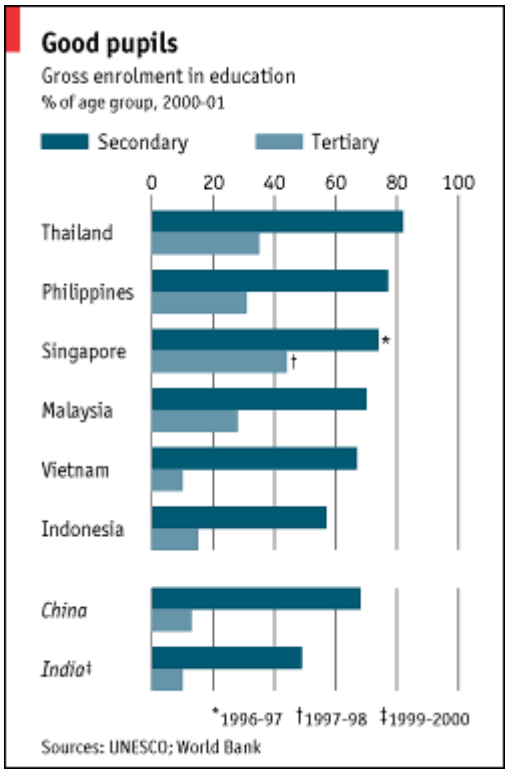
Such ambitions are expensive, of course, and money is in short supply. So South-East Asian governments have been trying to improve education on the cheap by decentralising the administration of public schools. Thailand is cutting the staff of the Ministry of Education by a third, and handing power over everything from budgets to uniforms to local school districts. Principals, in turn, will now be free to

hire and fire teachers. Even parents are to be given a say. Other fiercely centralised states in the region, such as Indonesia and Vietnam, are experimenting with similar schemes.

Vietnam's communist rulers are also embracing private education—presumably because it is the cheapest option, for the state at least. Vietnam, like other countries in the region, traditionally tried to provide top-notch university education free to its brightest students. But in 1993, with demand for higher education growing, and primary and secondary education eating up most of the education budget, it began to make room for private universities and colleges (although it still coyly refers to them as “public funded”). There are now 23 such institutions, with more than 100,000 students. And in Malaysia, which also began pushing for private universities in the mid-1990s, they now outnumber public ones.

The biggest enthusiast for private education (for foreigners at least) is Singapore, which hopes to turn itself into a “global schoolhouse” by catering to the pent-up demand for higher education in the region. It plans to attract an extra 100,000 foreign students by 2013 and to increase education's share of the national income from 2% to 5%. Both France's INSEAD and the University of Chicago have already established branches of their business schools in the city-state, while nine other foreign universities have tie-ups with Singaporean institutions. Next, the government plans private secondary schools, as well as culinary and arts institutes.

As a recent report by the Asian Development Bank points out, privatising higher education is, in general, logical, since the recipients benefit far more from it than their country as a whole. As it is, students at grand publicly funded universities in Asia tend to come from richer families anyway. But perhaps the biggest benefit of private education is that it insulates students from the political meddling that bedevils public schools. Public universities in Malaysia, for example, have lavished funds on Malay and Islamic Studies departments for nationalist reasons, despite little demand for their graduates.



Private schools also allow parents to decide on the language of instruction and the role of religion. In both the Philippines and Indonesia, for example, private religious secondary schools are common. The Muslim ones have recently fallen under suspicion as potential crucibles of extremism. But if properly regulated, they are also a potential lifeline for cash-strapped education systems. America seems to think so. It recently promised money to help improve the quality of Islamic schooling in Indonesia and the Philippines.

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China's local elections

The landlords grow teeth

Dec 11th 2003 | BEIJING
From The Economist print edition

A stirring of independence

“LET the people choose the people's representatives! Exercise our democratic rights!” So chanted a gaggle of people in a residential suburb of Beijing last weekend. Among them was an independent candidate in the city's elections this week, who led the team into a numbingly cold wind for a two-hour campaign tour of the neighbourhood. They handed out manifestos to passers-by, waved red banners and banged on an amplified drum. Rarely before in the capital's long history of polls rigged by the Communist Party had anyone tried standing for election without official backing, let alone hustling for votes on the streets.

The candidate was Nie Hailiang, one of a handful of people in the December 10th polls who stood as independents. Not so long ago Mr Nie and his friends would have been swiftly arrested for conducting unauthorised political activities in a public place. On this occasion no uniformed police even made an appearance.

Democracy is not about to sweep China, a one-party dictatorship that still ruthlessly crushes any organised opposition. The elections in Beijing were merely for district people's congresses, which are at the bottom of the legislative hierarchy. And even if independent candidates did well this week (the results won't be announced for a few more days, though Mr Nie says officials have told him he got a comfortable majority), their numbers will be dwarfed by the more than 4,400 officially sponsored winners.

Parts of urban China, however, are undergoing a more subtle change, propelled not so much by the country's top leaders but by the rapid acquisition of valuable property—especially housing—by ordinary citizens. In the five years since Beijing last held such elections, most of the city's housing, once owned by state-owned enterprises and government departments, has been partially or wholly privatised.

The district of Huilongguan, where Mr Nie was campaigning, is a vast sprawl of residential compounds north of the city that was mostly farmland when the city last voted. Mr Nie has been prominent as a leader of a group of property owners who have been protesting against the construction of yet more residential blocks in the heart of the district that would deprive residents of an open-air recreation area.

Mindful, it appears, of how militant property owners can become when their environs are threatened, the authorities have so far refrained from cracking down on Mr Nie's “rights protection committee”. On October 18th, scores of Huilongguan residents drove in a convoy late at night to the mayor's office in the centre of the city— which would have been trickier a few years ago when private cars were considerably less plentiful—to complain about what they said was the beating of several property owners by workers on the construction site. There they shouted slogans, such as “unity is strength” before leaving, cold and disappointed, at dawn.

Mr Nie says that having acquired their housing, citizens are now more mindful of their rights. “People want to protect these things. They now have a common desire,” he argues. In recent months, paper posters with large hand-written protest slogans have appeared on the walls of some apartment buildings in Beijing, accusing developers of violating citizens' rights.

The authorities are beginning to appear a little more comfortable now with such displays of discontent. But they remain wary of anything organised. In mid-November, says a Chinese journalist, the party's Propaganda Department ordered newspapers in the capital not to report on the campaign teams set up by independent candidates, among whom landlords and lawyers were prominent.

This was in spite of the party's ready ability to manipulate the outcome through shadowy “election

committees”, which secretively whittled down the number of candidates from more than 41,600 to fewer than 6,750. Shu Kexin, a leading landlords' rights activist, was eliminated in this process, though he retained a chance as a write-in candidate. And for all Mr Nie's vigorous campaigning, residents preferred to stay in the warmth of their homes than savour the unfamiliar thrill of joining him on the streets.

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North Korea

Hard going

Dec 11th 2003
From The Economist print edition

A diplomatic outcome is not assured

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IN THE down-the-rabbit-hole world of those whose job it is to try to part North Korea from its claimed nuclear “deterrent”, nothing is ever quite as it seems. This week, the North Koreans appeared to say no to a joint American, South Korean and Japanese proposal for “co-ordinated” steps to end their pursuit of plutonium and highly-enriched uranium (from which nuclear bombs can be made), since the proposal failed to offer any immediate “reward” for a proffered “freeze” on the North's nuclear activity. That is probably not North Korea's final word on the matter, if only because it had not even seen the proposal when it rejected it. All the same, China will be hard put to bridge enough differences to get another round of six-way talks—involving America, South Korea, Japan, China and Russia as well as North Korea—under way next week.

North Korea has long demanded that America sign a treaty renouncing the use of force against it as a precondition for any deal. President George Bush has already said he has “no intention” of invading North Korea. His officials have said they are prepared to put that in writing as part of a multilateral non-aggression commitment. But only when they see evidence that North Korea is dismantling its weapons programmes.

Pre-emptive though its “no” was this week, North Korea at least set out some of its demands. The rewards it wants included, for starters, supplies of oil, electricity and other energy assistance from America and its neighbours, the lifting of all economic and political sanctions, as well as what North Korea calls the “blockade”—by which America and its allies have recently been seeking to stop North Korea importing banned weapons technologies and exporting illegal drugs and counterfeit currency to pay for them. The Bush administration is adamant, however, that North Korea will not be rewarded for doing away with weapons programmes it never should have had in the first place.

Nor would America be satisfied with a freeze: it insists on a complete, verifiable and irreversible roll-back of the North's nuclear capability. The freeze that was supposed to apply to North Korea's production of plutonium under a 1994 agreement with America, in return for the eventual building of two civilian nuclear power reactors and interim supplies of fuel oil, could never be adequately verified; it finally came apart last year when America discovered that North Korea had since started a separate uranium-enrichment route to the bomb.

No one outside the country really knows what nuclear weapons North Korea now has, if any. America has long believed that, before the latest crisis, it had squirreled away enough plutonium for a bomb or two. The CIA recently concluded that North Korea had also worked out how to build bombs without having to test them. At earlier talks with America and others, North Korea threatened to do just that and even sell a bomb if it felt like it.

That sort of threat is what keeps China plugging away diplomatically to get talks going again. It fears that without some sort of negotiation under way soon, North Korea may do something rash. Then it would be hard for China to oppose America in taking the problem to the UN Security Council. And at that point North Korea could quite literally go ballistic.

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Afghanistan

Making enemies

Dec 11th 2003 | POL-E-SADARY
From The Economist print edition

The high price of hunting the Taliban

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IT WAS a bonus for the Taliban. Last week, an American air strike aimed at the house of a suspected militant in Ghazni province, deep in the disaffected south of Afghanistan, shredded nine children playing marbles in the earth nearby. A local labourer, who had recently returned home from Iran, was also thought to have been killed, while the targeted man appeared to get away. Another strike in the neighbouring Paktia province failed to find the suspect but killed six more children.

The Americans apologised, while proceeding with their biggest operation to date in the south—dubbed "Avalanche"—to chase insurgents before winter sets in. Yet similar operations over the past two years have achieved little. The American-led coalition has so far dismally failed to deliver security to the south. Innocents are as likely to be picked up—or apart—as enemies. Meanwhile the leaders remain at large. Mullah Omar, the Taliban leader, is said to operate in the Pakistani city of Quetta.

Osama bin Laden is also still at large. Having failed to catch or kill him, the Americans now say that keeping him isolated and on the run is almost as useful. Most Kabul insiders assume that he is alive but have divergent views as to his whereabouts. Some say he is living in a suburb of Karachi, in Pakistan. The latest speculation puts him in north-eastern Afghanistan, perhaps in the eastern districts of Nuristan province.

The American-led coalition recently sent 1,000 troops into Nuristan in an operation called "Mountain Resolve", targeting supporters of Gulbuddin Hikmatyar, a renegade warlord allied to the al-Qaeda leader. The coalition says the mission is to promote "freedom of movement and commerce" in the region, but Nuristani elders claim that elected representatives from western Nuristan were prevented from travelling to this week's constitutional *loya jirga* in Kabul because of the military activity. These delegates were already reluctant to pass through the lands of their sworn enemies to the south, whom they accused of feeding the Americans faulty intelligence. That may explain what appeared to be an American air strike on the house of a Kabul loyalist in Nuristan on October 31st, which killed eight people, including children asleep in bed.

Nuristanis are a defiant bunch. They were the first Afghans to rise up against the Soviet occupation. Much of the province leans towards radical Islam, and some of its mullahs were educated at Saudi-influenced religious schools in Pakistan. But that does not automatically mean that they support Mr bin Laden. And even if Mr Hikmatyar's thugs hid him, he would have a hard time moving around. "He does not know our ways, our languages. We would spot him immediately," says one elder.

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Japan's budget

Cutting by coalition

Dec 11th 2003 | TOKYO
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Last month's competitive election has spiced up fights over money

LIFE has become more complicated for Junichiro Koizumi. Until recently, the prime minister's way of dealing with both the budget deficit (now above 7% of GDP) and political opponents was to slash spending on public works. This made him look tough on deficits but also hurt rivals in his own Liberal Democratic Party (LDP), whose old guard leans on cosy construction ties for political support. But last month's general election has made the budget battle much trickier.

Although the opposition Democratic Party of Japan (DPJ) is still far short of a majority, it gained 40 seats in the election and has become a legitimate rival. One of its campaign pledges was to give local governments more freedom to tax and spend as they choose. Moreover, the LDP's coalition partner, New Komeito, also gained votes and increased its clout. New Komeito's signature campaign issue, shoring up the pension system, is clearly popular with voters.

As the finance ministry prepares to release a draft budget this month, it is hoping to hold taxing and spending close to their current levels: roughly ¥42 trillion ($390 billion) and ¥82 trillion a year, respectively. But it will be hard to do even this, while also pleasing local governments and resolving the pensions impasse.

Start with local finances. Japan's governors and mayors want to keep more locally generated tax revenue, instead of relying heavily on subsidies from the national government. They can spend the former as they choose, whereas subsidies are allocated by central bureaucrats, who also decide how they must be used. The best hope for a solution would be some combination of subsidy cuts and transfers of taxing authority. But Mr Koizumi faces fierce resistance from central-government bureaucrats. They have squealed at his request to find ¥1 trillion in subsidy cuts for next year. The finance ministry, meanwhile, is happy to cut subsidies, but does not want to transfer control of tax revenue to local governments.

Forging a consensus on pensions will also require wrenching compromises. First, there is the share paid by the government out of general revenues. The current plan is to raise this tier from one-third to one-half of the total payment over a five-year period. This would cost roughly ¥2.7 trillion annually by the fifth year, for which the government would have to find cuts. After the third year or so (and after Mr Koizumi has left office), the extra revenue might come from higher consumption taxes—which the prime minister has promised not to raise during his term.

This week, Mr Koizumi struggled to forge a compromise on the other tier of public pensions, which is funded through premium payments. New Komeito has endorsed a plan to raise premiums paid by workers and employers to a combined 20% of annual income, compared with 13.6% now. This would be paired with benefit cuts from 59.4% of income to 54.7%. Businessmen have balked, calling for a 16% premium and steeper benefits cuts. On December 10th, Mr Koizumi split the difference, telling the labour and welfare ministry to cap premiums at 18%, which would allow benefits payments to stay above the symbolic mark of 50% of salary. While making only a dent in Japan's fiscal problems, the compromises on offer would nonetheless bring a stiff dose of pain.

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About sponsorship

Tajikistan's migrant workers

A wretched Eldorado

Dec 11th 2003 | DUSHANBE AND KHOJI-BOGH
From The Economist print edition

The misery of summer decamping

EVERY April, eight in ten inhabitants of the northern mountain village of Khoji-Bogh pack their bags and leave. They spend the next few months in Russia. In Tajikistan, where the economy has yet to recover from the collapse of the Soviet Union and a civil war, the average wage for those able to find work is under $10 a month. In Russia, Tajikistanis can make $1,000 in one season. Back in Khoji-Bogh, fresh tin roofs and houses attest to the relative wealth of those who make the trip. “Of course, we never know how much we will bring back,” one villager remarks. “We lose some along the way to our Uzbek and Kazakh brothers.” Yet working abroad has become the only means of survival for many Tajikistanis.

With more than 80% of the country's 6.5m population living in poverty, money from relations working abroad is a vital source of income. A recent study by the International Organisation for Migration (IOM) estimates that in 2002 Tajik migrant workers sent back $200m-230m—more than government revenues in this tiny economy. A survey has found that between early 2000 and early 2003 more than 630,000 people left in search of work and that one home in four had a family member working abroad. Though many go for the summer months only, to work as builders or farm labourers, others stay away for years.

One result in rural Tajikistan is that women who by tradition stay at home are becoming more active economically. Zulfia has not seen her husband for four years. Neither his occasional remittances nor her meagre pay as a nurse is enough to feed her two children and her mother. So she augments her income by selling milk and cheese from the cow she has acquired with the help of a local NGO. Some of her neighbours with husbands abroad grow vegetables or raise chickens.

Working abroad is not for the faint of heart. Illegal migrants make easy targets for unscrupulous employers. The IOM reckons that one out of four building workers in Russia has to pay protection money to racketeers. The trip itself is nerve-wrecking. The train from the capital, Dushanbe, to Astrakhan in Russia follows a quirky route, entering Uzbekistan four times and Turkmenistan three times in the three-day trip. At every crossing, passports and luggage are checked. Observers from the IOM report that passengers are crammed into overcrowded compartments with no toilets. They are checked every hour and must put up with insults, extortion—and, in the case of women, threats of gynaecological exams. Groups travelling by road usually hire a “guide” to negotiate bulk bribes with border guards.

Plain robbery is also a hazard for migrants, many of whom carry their wages home in cash. But improved banking services and the abolition of a punitive tax on foreign-exchange transfers have increased the use of wire transactions.

At least there are happy endings, of a sort. Muhabat Tolibova's husband, now home in Kofarnihon, near Dushanbe, spent only one summer working in Russia, to pay for their son's wedding. Thanks to small loans granted to his wife, the family has been able to cultivate a plot of land and is breeding cattle. The couple now employs 20 relations. “The only reason for me to go back to Russia”, he sighs, “would be to take a break from my wife.”

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Justice in Iraq

Bringing the old regime to trial

Dec 11th 2003
From The Economist print edition

Getty Images

Why the plan for an Iraqi tribunal worries human-rights campaigners

IT SHOULD be cause for satisfaction, even catharsis, if not celebration. A special tribunal is being set up to try top people in Saddam Hussein's regime for genocide, torture, mass slaughter, and other atrocities. Human Rights Watch, a respected international lobby group, reckons that at least 290,000 Iraqis were murdered in the last two decades of Mr Hussein's rule; that figure excludes those—probably many more—who died as a result of wars started by Mr Hussein. Nor does it include the millions of Iraqis who suffered in other ways. Bringing the chief perpetrators to book and creating a new system of law must surely be applauded.

Not yet. The trouble is over who should oversee a new judicial process. This week Iraq's American-appointed Governing Council announced that a tribunal would be set up to try the miscreants—and that it would be run entirely by Iraqis. International human-rights groups, the United Nations, and even Britain, America's main partner in Iraq's ruling Coalition Provisional Authority (CPA), are worried. They fear that the tribunal may fail to comply with international standards of fairness, in particular by waiving a right of *habeas corpus.* It may seek to impose the death penalty on the worst culprits. Most worryingly and self-defeatingly, it risks being seen by both Iraqis and outsiders as a tool for vengeance rather than as the beacon of a new, clean and impartial judiciary.

Most tribunals set up over the past decade—to try war crimes and crimes against humanity in such troubled places as Rwanda, the former Yugoslavia, Sierra Leone, and, most recently, Cambodia—are under the auspices of the UN and have at least a strong component of international judges. All are conducted in accordance with international law. None permits the death penalty. But the planned Iraqi court is being set up, with America's encouragement, without reference to the UN. It will be run entirely by Iraqi judges, mainly under Iraqi criminal law and procedure, which often clash with international law. Once the CPA hands over formal sovereignty to a transitional government in July, the new rulers may insist that the tribunal be empowered to re-impose the death penalty the Americans suspended after toppling Mr Hussein in April.

The British, in particular, were alarmed by the plans for the court, and quietly urged Bertrand Ramcharan, the UN's acting High Commissioner for Human Rights, to write last week to Paul Bremer, the American proconsul who heads the CPA, to mark his concern over the draft plan's apparent incompatibility with international humanitarian law. Mr Ramcharan also suggested that international

judges, prosecutors and investigators with experience in human-rights cases should be more involved. The Governing Council's draft mentioned international lawyers only as possible advisers.

Thanks to Mr Ramcharan's intervention, the council made some last-minute amendments. Details of the court's statutes have yet to be published. But the council is believed to have decided, for example, to let international lawyers be brought in as investigators, though not as judges. And defendants are to have a right to legal representation and to an appeal. But no explicit ban on capital punishment is included in the tribunal's statutes. Indeed, some council members have hinted that it could well be resuscitated and imposed on Mr Hussein, *in absentia* if necessary, and on his closest aides. This would make it virtually impossible for Britain and any other European Union country to hand over prisoners to the tribunal.

“It will be a noble experiment,” says Adnan Pachachi, a former foreign minister who is in the Governing Council. “It shows we want to apply the rule of law and not let the desire for revenge take over.” Human-rights groups are not convinced. Richard Dicker, legal director of Human Rights Watch, worries that “this could degenerate into political show trials.”

Motes and beams

In any event, finding qualified and impartial Iraqi judges and lawyers to man the proposed five-judge tribunal will be hard. Many of those who worked under the old regime are likely to be seen as tainted, while the objectivity of those returning from exile, many of whom were victims of Mr Hussein, may be queried too. The CPA is vetting all present Iraqi judges for their integrity and for their past membership of Mr Hussein's Baath Party. The records of half of them have so far been examined; only one in five has been disqualified.

Hitherto, the Americans have supported UN-sponsored war-crimes tribunals. But in Iraq, from the outset, they have promoted the idea of an all-Iraqi court with no UN involvement, arguing that the Iraqis themselves, as the main victims of Mr Hussein, were entitled to try their own persecutors. They have even offered $75m to support the court. But many suspect that the Americans' opposition to an international tribunal for Iraq is part of their campaign against the UN's International Criminal Court, not because of a genuine change of opinion. In the case of the former Yugoslavia, they certainly took the opposite view, even threatening to cut loans to a reforming Serbian government if it did not hand over Slobodan Milosevic to the UN's war-crimes tribunal in The Hague.

Of the 7,000 or so people still being held by coalition forces in Iraq, only around 100 are classified as prisoners of war: that is, uniformed soldiers captured on the battlefield. Under international law, they must either be freed or brought before a military court when hostilities have officially ceased. Around 2,200 are “criminal detainees”, looters and the like, who will eventually be handed over to the Iraqi authorities for trial in normal Iraqi courts. The remaining 4,800-odd are so-called “security internees”: suspected insurgents, al-Qaeda terrorists, would-be suicide bombers, and anyone else deemed to pose a threat to the coalition's forces or to Iraqis in general. They include 101 “high-value detainees” suspected of the worst atrocities under Mr Hussein, including 38 of the most wanted 55 people (two of whom have been killed) in the Americans' “deck of cards”.

Unlike America's 660 prisoners in Guantánamo Bay, all its security internees in Iraq are being held in accordance with the Geneva Conventions. Though they have not been charged and have no access to a lawyer, their cases must be—and are being—subject to regular review. If no longer considered a danger, they may be freed or, if suspected of a crime, switched to the criminal-detainee category to await trial in an ordinary court. But those still deemed a security threat can continue to be held by the “occupying power”, namely the CPA, for as long as the occupation continues.

What will happen to the detainees come July 1st next year, when the Iraqis are supposed to take over? No one is sure. Most of the mass murderers and other gross violators of human rights will probably end up before the new special tribunal, which is expected to start operating next year. Others may be freed. But the Americans will probably ask to keep those thought likely to provide useful information for its war on terror. So they could then fall into the same legal limbo as the prisoners in Guantánamo Bay.

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Iraq's television

A chance missed

Dec 11th 2003 | BAGHDAD
From The Economist print edition

America has failed to promote freedom of expression—or its own message

“THERE is no information available at this time,” reads the message on the website of the Iraqi Media Network, the intended precursor of a hoped-for revamped state broadcasting service and the Americans' main purveyor of news in Arabic that, after 30 years of state lies, is meant to be true. “Please check back.”

Iraqis have been checking for eight months, baffled by how a nation with the world's most vibrant media can leave them still yearning for something they actually want to watch. So dull is the present service that some Iraqis may even hanker for the days when Saddam Hussein's delinquent son Uday ran the television. As a result, far more Iraqis watch two Arab satellite channels, al-Jazeera and al-Arabiya, both of which seem to revel in America's local tribulations.

Part of the problem is that the Pentagon assigned Iraq's broadcasting to a defence contractor, Science Applications International Corporation (SAIC). So far, the firm has shown as much aptitude for delivering news as the BBC would if it had to deliver missiles. It charged the Pentagon $100m in operating and infrastructure costs but paid its broadcasters $30 a week. It hired the same performers who sang praises to Mr Hussein as “the servant of God” to sing odes to Iraq's new-found freedom. State TV is required to relay the statements of the ruling American-led Coalition Provisional Authority (CPA) and its appointed Iraqi Governing Council, earning it a reputation as the Pentagon's *Pravda*. Freed from Saddam's ban on satellite dishes, a third of Iraqis have switched to other stations.

The failure to provide useful or interesting information is not just SAIC's; it is symptomatic of a more general speech impediment. Not only does the CPA not speak Iraq's language; it rarely deigns to speak at all. Gary Thatcher, Mr Bremer's communications adviser, does not communicate himself, and often bars CPA officials, bunkered behind their concrete bollards, from answering press inquiries directly. This fosters suspicion and rumour, making the CPA seem remote and prickly. Mr Bremer rarely invites Arab journalists to his press conferences. In such self-imposed solitude, the CPA is struggling to get its message across.

Too late for a remedy? SAIC's contract is up for renewal next month and has been put up for tender. The money on offer—$98m a year for two years—at first attracted a welter of interested parties, including the Australian Broadcasting Corporation, the BBC and Britain's Independent Television News. The British apparently tried to persuade Mr Bremer that Iraq needs a public broadcaster, independent of the government and regulated by law, for its fledgling democracy.

It has yet to happen. Proposals to keep broadcasting out of the hands of the executive have collided with vested interests in Washington. If you give $100m, you expect some say in how it is spent, they say. The BBC, among others, is shying away. Of 28 potential bidders, only three are primarily broadcasters. Others include specialists in engineering and arms, and the Rendon Group, a public-relations firm paid by the CIA to help the Iraqi National Congress and its leader, Ahmed Chalabi. Even SAIC may still be interested.

Most Iraqis are in the dark about all of this. The Governing Council gave warning that if the American administration let foreigners run Iraq's broadcasting service without consultation, the transitional government due to take office in July would sever the contract.

In its search for a voice, the council has sought editorial control and a say in appointing staff. But its own commitment to press freedom is iffy. Last month, it ordered al-Arabiya to shut its Baghdad office.

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Judging the war in Iraq

Could try harder

Dec 11th 2003
From The Economist print edition

Was it fought legally?

BOMBS are only ever as smart as the people who drop them. During the campaign in Iraq, says a new report on the war by Human Rights Watch, a lobbying group, the intelligence upon which the coalition's bomb-droppers relied was not always very intelligent.

Before the war, Britain and America trumpeted the care they intended to take in selecting targets, and most of their weaponry did indeed prove precise. But, argues the report, the 50 or so opportunistic strikes on Iraqi leaders, intended to “decapitate” Saddam Hussein's regime, relied on shaky information and ended up killing only civilians.

The report's other main charge concerns the coalition's use of cluster munitions, especially those fired by land forces. Designed for use against broad or moving targets, cluster bombs can be fatally haphazard when dropped in populated areas, as some were in Iraq. As in previous conflicts, some of the bomblets failed to explode and now lie around imperilling Iraqi lives. The report concludes that hundreds of civilian deaths could have been prevented; it also criticises some of the attacks on Iraq's infrastructure and the coalition's failure to secure dangerous Iraqi arms caches.

The Saddamites, of course, violated the rules of war with abandon, disguising themselves as civilians and utilising mosques and hospitals. Those rules, however, oblige states to take “all feasible precautions” to avoid harming civilians. As military technology advances, it imposes a responsibility on America and its allies to take commensurately stricter precautions. In Iraq, that didn't always happen.

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Zimbabwe and the Commonwealth

Bye-bye Bob

Dec 11th 2003 | ABUJA
From The Economist print edition

Zimbabwe is isolated, Africa divided

Get article background

BETWEEN the ceremonial planting of trees, traditional dances and a speech by England's queen, two questions paralysed last week's meeting of leaders of the (formerly British) Commonwealth in Nigeria's capital, Abuja: what to do about Zimbabwean President Robert Mugabe; and how to explain the continuing support for him by the one man who could sink him, South Africa's President Thabo Mbeki. After three days of talks, there was an answer to the first: the 51 leaders agreed to prolong Zimbabwe's suspension from the organisation, because of its government's oppressive ways.

Mr Mugabe, who had not been invited to the Abuja jamboree, will be banned from future meetings. He declared that he would, in any case, leave the Commonwealth and turn his back on the “unholy Anglo-Saxon” alliance which—he says—runs it. So Zimbabwe follows the example of apartheid-era South Africa, which quit the Commonwealth in 1961 rather than treat its people decently. (Three other countries—Fiji, Nigeria and Pakistan—have been suspended for mounting coups or hanging dissidents. Pakistan is still out.)

Zimbabwe flouts nearly every principle that the Commonwealth promotes. In September, for instance, club-wielding Zimbabwean police shut down the country's only independent daily paper. Last week Mr Mugabe said it was time again to use “some measures of force” against his opponents. Members of the Movement for Democratic Change (MDC), Zimbabwe's opposition, were in Abuja showing grisly videos of what usually happens when Mr Mugabe makes such threats.

Mr Mugabe's economic incompetence causes even more misery. On December 3rd, the IMF finally decided to expel Zimbabwe, citing its government's unwillingness to do anything about an economy that has shrunk by 40% since 1999, inflation of 526% and a populace so impoverished that two-thirds of them depend on foreign food aid. The country's finance minister cheerily predicts that the economy will shrink by another 8.5% next year. The country has one of the world's highest rates of HIV: around 34% of adults are infected. Hundreds of thousands of Zimbabweans flee abroad every year.

Yet quite a few leading Africans, particularly South Africa's Mr Mbeki, still turn a blind eye to Mr Mugabe's shortcomings. The African Union and the Southern African Development Community have yet to criticise him in public. And Mr Mbeki is still campaigning to have him appeased.

Indeed, Mr Mbeki tried to oust Don McKinnon, the Commonwealth's secretary-general, who made no secret of wanting Zimbabwe to stay suspended. South Africa lobbied to replace him with an aged Sri Lankan, Lakshman Kadirgamar, whose bid was rebuffed by 40 votes to 11. “We could not let McKinnon trample over us,” grumbled a South African official. Mr Mbeki then fought for Zimbabwe's suspension to be ended, only to be defeated on that by a similar margin, with only the countries of southern Africa (and not all of them) lined up against the rest.

South Africa has always argued that its “quiet diplomacy” over Zimbabwe is the only way to preserve some influence over Mr Mugabe and thereby encourage him to talk to his political opponents. Things may be bad now, goes the argument, but Mr Mugabe could make them a lot worse.

Mr Mbeki has other concerns, too. He seeks re-election, probably in March next year. Some of his own voters like Mr Mugabe's rants against “genetically modified” foreigners and enjoy his attacks on Zimbabwe's tiny white-skinned minority. Mr Mbeki also resents outsiders, such as Britain's Tony Blair, meddling in his region.

Perhaps more importantly, Mr Mbeki does not think that Zimbabwe has an alternative government in the offing. The leader of the four-year-old MDC, Morgan Tsvangirai, is slow-moving, inexperienced and repeatedly outfoxed by the government. Though popular, easily winning more votes than Mr Mugabe in last year's stolen presidential election, Mr Tsvangirai has failed to rouse sustained mass protests, not least because demonstrators fear being shot. Mr Mbeki seems to dismiss Mr Tsvangirai's frequent arrests and trial on capital charges as no more than the usual impediments that African dissidents face.

The good news is that fewer Africans now think this way. Nigeria's president, Olusegun Obasanjo, who promised to “leave no stone unturned” in his search for a solution, said he would send an envoy to see Mr Mugabe before Christmas.

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Zanzibar

Terror, tourism and odd beliefs

Dec 11th 2003 | ZANZIBAR
From The Economist print edition

Superstition as a political barometer

FEW readers of *The Economist*, one would imagine, have seen a one-eyed dwarf with bat-like wings, pointed ears and sharpened talons. Even fewer are likely to have been sodomised by one. Many of the people of Zanzibar, however, sincerely believe in Popobawa, an incubus who supposedly rapes men who doubt his existence. Isolated sightings are reported every year. Locals say that Popobawa appears accompanied by a puff of smoke, usually on Pemba, the smaller of the spice islands that make up this semi-autonomous part of Tanzania.

At times of stress, Popobawa seems to go on a rampage. So many people report seeing him that ordinary life in some villages stops. Men sleep arm-in-arm outside their houses, in the belief that not being in bed makes them less vulnerable. There were said to be numerous attacks before and after Zanzibar's president was assassinated in 1972, and again in 2000 and 2001, coinciding with a rigged and violent election.

Popobawa may be mythical, but reports of sightings give a useful insight into the Zanzibari mood. The incubus was seen in November, prompting a local spiritualist to predict that “bad men will do bad things here next year [and] people will die.”

It is possible. Tensions have been simmering in Zanzibar since the police killed 39 opposition supporters in early 2001. The island's mostly poor and Muslim population feels marginalised. Secessionist mutterings are growing louder. Tanzania's government has clamped down: last month it banned an independent newspaper, accusing it of fomenting tribal and religious divisions.

Economic woes may make unrest more likely. Too many young men lost their jobs after terrorists attacked Jewish targets in nearby Kenya a year ago. Tourist receipts in Zanzibar fell by 30% in the first three months of this year. Things have since improved, but America says the threat of an attack on Zanzibar remains high, pointing out that two al-Qaeda operatives were born there. Zanzibaris, most of whom are moderates, disagree. “Freddie Mercury was born in Zanzibar,” said one. “It doesn't make us more likely to become pop stars.”

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Education in poor countries

Down with school fees

Dec 11th 2003 | HUAMBO, ANGOLA
From The Economist print edition

More children are in school than ever before. But that isn't good enough

IT IS never too late to learn how to read. Pricila Nakangwe is 72, but when the war in her native Angola ended last year and a bunch of foreign aid workers came to help her village set up a school, she thought she'd seize the opportunity. She shares a classroom with somewhat younger pupils, including a number of demobilised soldiers. Well, not exactly a classroom, more a thatched shelter. In a country where decades of fighting have left few bricks still together, one has to make do.

Some 44% of Angola's primary school-age children are out of school, but now that the shooting has stopped there is a chance to make up for lost lessons. The UN children's fund, Unicef, has pitched in, with a crash course in teaching for 5,000 new teachers and by cramming 250,000 children into schools in the country's two most battle-charred provinces.

AFP

Put it down and go to school

Children were each given an “education kit”, including a bag, pencil, eraser and books. The pilot scheme was so successful that the Angolan government has promised to extend it across the country next year. It has set aside $40m to train another 29,000 teachers and hopes nearly to double enrolment in the first four years of primary school in a single year. Given the government's record of corruption and brutality, things may not run smoothly. But crisis can bring out the best in people. After the fall of the Taliban, 4m Afghan children were enrolled in a single year.

Given a sense of urgency among those in power, rough-and-ready schools can be set up very quickly. Why, asks Cream Wright, Unicef's head of education, do not more countries with large numbers of unschooled children have such a sense of urgency? According to a Unicef report out this week, 121m children who should be in school are not.

Enrolment has improved steadily over the years. In 1960, fewer than half of children aged six to 11 were in school; now, four-fifths are. But steadily is not good enough when, as Angola and Afghanistan show, even the most wretched nations can get better fast.

Why is primary enrolment only 24% among girls in Niger and 36% among boys? The country may be poor, but it is not at war. School attendance is equally low in Ethiopia and Burkina Faso, which similarly have no excuse. And in sub-Saharan Africa as a whole, primary enrolment is a mere 59%. Mr Wright argues that this should be treated as an emergency.

Countries that have tackled the problem urgently have often seen spectacular results. Uganda, for example, decided to abolish primary school fees in 1996. Doubters said it couldn't be done: the system would be swamped. President Yoweri Museveni went ahead and did it anyway. Enrolment more than doubled. Some classrooms did indeed get very crowded, but pupils and teachers alike knew that the experiment could not afford to fail, so it didn't. Similar, if less dramatic, advances have been seen in Tanzania and Kenya, which have also abolished primary school fees in recent years.

Besides abolishing fees, there are several things that governments can do to get more children into school. In rural areas, families are sometimes reluctant to let their children go to school because they need extra hands to work in the fields or perform household chores. One way round this is to provide free food in schools, as happens in South Africa and India. Pupils become less of a drain on the household

budget if they are fed in school, and they can also concentrate better. Ideally, they should also be well fed before they reach school age. Malnourishment stunts brains as well as bodies. If severe in the first few years of life (or in the womb), the effects can be irreversible. By one estimate, better nutrition would raise average IQs in poor countries by 10-15 points.

Globally, girls are more likely than boys to miss school. Poor families often choose to educate their sons first, and it is usually girls who drop out to care for sick parents. Sometimes families are wary of letting their daughters walk long distances to be taught by male strangers. Such fears can be assuaged by opening lots of smaller schools—sometimes only a single classroom—closer to where people live, as Egypt has.

Educating girls is doubly important because it makes them more likely to ensure that their own children are educated. As countries grow richer, girls tend to catch up with boys academically. In parts of western Europe, they have overtaken them. That is still far off in poor countries, but it is never too early to start trying.

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European Union

Might it all tumble down?

Dec 11th 2003 | BRUSSELS
From The Economist print edition

A guide to the perils facing Europe's leaders at this weekend's European Union summit on a new constitution

Get article background

TWO years of debate, drafting, amendment and arm-wrestling over a proposed constitution for the European Union will come to a climax in Brussels at this weekend's summit of EU leaders. Agreement on a final text is far from certain; the meeting could last into the small hours of Monday December 15th. In the run-up to the summit, several countries were making increasingly uncompromising noises about the issues still in dispute.

These issues fall into two broad categories: institutions and policies. The institutional ones concern the carve-up of power between and within the different bits of the EU system—the member states, the European Commission, the European Parliament and the Council of Ministers. They are likely to prove the hardest to settle, just as they were at the treaty-making summit in Nice three years ago. The policy questions are about the extent of the EU's powers in specific areas such as tax, social security, foreign policy and defence. Several countries have concerns that they insist must be respected if they are to accept the new constitution. These are the main outstanding issues:

•**Voting weights**. The most fraught argument will be over voting weights of EU countries in the Council of Ministers. In Nice, the EU agreed on a complex, three-tier system that gave extra votes to smaller countries. Four big countries—Germany, France, Britain and Italy—got 29 votes each. Spain and Poland have 27 votes each, although their populations of roughly 40m apiece are about half Germany's. Even though Nice has not yet come into force, the new draft proposes to switch to a simpler “double majority”, under which an EU law would pass if it was supported by a majority of the 25 EU countries, representing at least 60% of the population.

This proposal increases the power of big countries. Germany, for example, has 9.2% of the EU's voting power under Nice and 18.2% under the new plan. The smallest countries retain extra influence through the simple-majority-of-countries formula. But medium-sized countries, meaning Spain and Poland, are clear losers. Not surprisingly, they say that they cannot accept the change. The Spanish government says that “with the double majority system, the EU would end up being governed by the four most populous states.”

If Spain and Poland will not compromise, might Germany? Politicians in Berlin insist that double majority is non-negotiable. Gerhard Schröder, the German chancellor, said this week that “this is a point on which we are not prepared to move.” Tough talk before and during a summit is standard EU procedure (see article). But some insiders worry that national positions are now so set in stone that EU leaders may find it impossible to compromise. If the summit fails, which is quite likely, it will be over voting weights.

•**Other institutional issues.** It is easier to see the outlines of a deal here. The draft's suggestion that the European Commission should be cut to 15 voting members will be rejected, at the insistence of small countries, and each country will keep a commissioner. Proposals to increase the European Parliament's power over the EU budget may be watered down, though the parliament is screaming. The plan for a European Council president to serve for two and a half years, in place of today's six months, has been broadly accepted. So is the new EU foreign minister, based in both the Council of Ministers and the European Commission, though his role may be further clarified to shift more of his role and powers to the council.

•**Britain's red lines**. In the 1980s and 1990s summits often ended with Britain fighting alone against an integrationist move favoured by the rest. The British are pleased that this time they are bystanders in the bloodiest battle, over voting weights. But when the summit turns from institutions to policies, it will be evident that Britain has more reservations (known as red lines) than any other country. The British remain unhappy with aspects of the Charter of Fundamental Rights. They will fight particularly hard against moves to dilute national vetoes in such sensitive areas as tax, foreign policy, social security and the finances of the EU.

Going into the summit, the British insisted that they were making progress in eradicating any hint of majority voting in these red-line areas. That they are fighting on so many fronts is a source of some concern to British diplomats, who reckon they might do better to concentrate on one or two key points. On the other hand, the British have allies on every issue. The Irish, who have low corporate taxes, are even more insistent than the British on retaining a veto over tax. Most net contributors to the EU budget are keen to retain their veto rights. There is broad resistance to efforts to make it easier to amend the constitution and to reduce the scope for national vetoes in future. On foreign policy, the British may try to win support by trading their backing for a solution on voting weights.

•**Defence**. One issue on which the British claim to have achieved satisfaction is defence. They say they have watered down efforts aimed at letting a small group of EU countries forge their own defence union. The inclusion of a mutual-defence clause, binding all EU countries to come to each other's aid if attacked, had alarmed neutral countries such as Austria, Ireland, Finland and Sweden. But just before the summit convened, a qualifier was added to the clause saying that it would not run counter to the traditional constitutional arrangements of member-states. The neutrals say that they are happy, though the clause now seems messy and contradictory.

•**Justice and home affairs.** This is the area that will see the biggest changes after the constitution, including more majority voting on asylum and immigration. But the biggest argument is over criminal law. Britain, Ireland, Sweden and Denmark fret that a proposed EU public prosecutor might be a pointer towards further criminal-law harmonisation, especially if the text allows changes to criminal-law procedures to be made by majority vote.

•**The stability pact.** The Irish are not the only country brandishing the threat of a referendum over their negotiating partners. The Dutch are planning to depart from tradition by holding a plebiscite on the new constitution. For them, the trickiest issue is the fact that France and Germany have blatantly violated the stability and growth pact, the fiscal rules governing the EU's common currency. This is an issue this weekend because the pact is incorporated virtually unaltered into the new constitution. The Dutch may demand some changes to make it harder to violate the pact in future. They are likely to be told to get lost, but this might encourage their voters to take revenge in a referendum.

The prospect of votes on the constitutional treaty in many EU countries should concentrate leaders' minds. But it will also be a nagging reminder that, even if they reach agreement in Brussels, it could ultimately be in vain. Any new text must be ratified by all 25 EU countries. That looks like a daunting hurdle.

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Turkey's Kurds

Glimmerings of tolerance

Dec 11th 2003 | BATMAN AND DIYARBAKIR
From The Economist print edition

The Kurds in south-eastern Turkey are tasting some new freedoms

Get article background

AS TURKEY ploughs on with efforts to qualify to join the European Union, the effects of reforms enacted over the past year by the conservative government led by Tayyip Erdogan are being felt, sometimes in surprising ways, in the largely Kurdish south-east. A new porn video, *Xashiki Kaliki* (Grandad's Fantasies) is selling well: until recently, it would have been banned, not for its content but for being in the Kurdish language. More significantly, Turkey's 14m Kurds are able for the first time to learn their own dialects through a handful of privately run courses.

In the town of Batman, Aydin Unesi, a Kurdish-language teacher, says 200 students have enrolled since his school opened its doors last month. A giant sign reading “Kurdish language course”, painted in the previously banned Kurdish national colours, marks the building in Batman's central square. In October the local governor invited a Kurdish bard, Mahsun Kirmizigul, to perform before a crowd of 150,000 to celebrate the 80th anniversary of the founding of the Turkish Republic. His opening number was in Kurdish.

Language students at work

Such examples of tolerance may, however, mislead. Mr Unesi's students have yet to begin their lessons. “That is because the authorities keep throwing up new bureaucratic hurdles,” he complains. First he was told to broaden doors to his classrooms and hang up more Turkish flags. Then he was told to build a fire escape “even though we have two of them and inspectors saw them.” Faced with such obstacles, not a single Kurdish-language course has held classes so far. The laws have changed, but the authoritarian mentality of local officials has not.

In Diyarbakir, the largest city in the south-east, Sezgin Tanrikulu, a human-rights lawyer, was taken to court by paramilitary police in May. His crime? Filing a complaint with the European Court of Human Rights on behalf of villagers in the nearby town of Kulp, whose homes were torched by security forces in the early 1990s at the height of the separatist insurgency led by the outlawed Kurdistan Workers' Party (PKK). To the court's embarrassment Mr Tanrikulu's clients came to a hearing on October 17th to

describe the horrors inflicted by the armed forces. If they are convicted, Mr Tanrikulu and three other lawyers may spend up to three years in jail.

When the PKK called off its fight for an independent Kurdish homeland after the capture of its leader, Abdullah Ocalan, in 1999, the hope was that the government would invest in poor provinces such as Mus, where average income per head in 2000 was $725, compared with a national average of $2,941. Yet Bedrettin Karaboga, chairman of Gunsiad, the Kurdish industrialists' lobby group, says that “not a penny has come so far.” He reckons that 70% of factories in the region are idle and that eight out of ten locals are unemployed. No wonder, he says, that many of the suicide-bombers who attacked in Istanbul last month were ethnic Kurds.

The American-led occupation of Iraq, viscerally opposed by most Turks, has provided some relief for the Kurds. Around 3,500 Turkish lorries carrying food, fuel and other non-combat matériel for the Americans cross daily in and out of Iraq from the south-eastern province of Sirnak. The Americans have bought $150m-worth of Turkish goods since the end of the war, some of it from the south-east; more Turkish contracts worth some $400m are in the pipeline. But the Kurdish truck drivers who carry the stuff also see the freedom being enjoyed by their fellow Kurds in northern Iraq, who have been running their own affairs outside Baghdad's control for over a decade. Kurdish-language porn may no longer be enough to satisfy them.

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German reforms

Hoping for Christmas

Dec 11th 2003 | BERLIN
From The Economist print edition

Why the government's reform plans remain in jeopardy

CAN Germany reform? The next few days may provide an answer—and decide whether the country is in for a long, inexorable decline. Tortuous negotiations between the Social Democrat-led government and the Christian Democratic opposition over the “Agenda 2010” reforms dragged on this week; a deadline of December 11th brought no result.

It is a change from the enthusiasm earlier this year. Gerhard Schröder, the chancellor, seemed at last to accept the case for change. He announced a set of reforms that he called Agenda 2010. The opposition Christian Democrats signalled that they would not stand in the way. Angela Merkel, the party boss, knew that, when her predecessor Helmut Kohl was in power, his reforms were blocked by the Social Democratic opposition. She said she did not want Germany to “hit the wall”.

If the country is nevertheless now on a collision course, that is thanks mainly to its federal system. The opposition has a de facto veto over most government policies, because—as has been the case in most recent years—it controls the Bundesrat, Germany's upper house. The Bundesrat is not an assembly of elected politicians, like the American Senate, but of appointed representatives from the governments of Germany's states, the *Länder*.

All political eyes are on the *Vermittlungsausschuss*, the joint reconciliation committee of the Bundesrat and the Bundestag, the elected lower house. Although the committee, made up of the premiers of the 16 *Länder* plus 16 Bundestag members, split equally between government and opposition, meets in secret to make negotiating easier, the newspapers are full of the latest developments in the “darkroom”, as the committee's conference room is called.

The negotiations are an equation with many variables. A large chunk of Agenda 2010's 2,800 pages, which include everything from less protection from dismissal to giving municipalities more money and deregulating craft trades, must be passed before Christmas if one central element is to be implemented on January 1st: the advancing of tax cuts originally scheduled for 2005. As if this were not enough, the opposition has added items to the agenda. It will accept the tax cuts only if no more than a quarter of their *euro*15 billion ($18 billion) cost is financed by new debt, if it is made even easier to fire people and if local exceptions from national collective wage agreements are legalised.

Some of these demands are designed to put Mr Schröder between a rock and a hard place, notably the attempt to weaken central wage agreements. If he yields on this to save Agenda 2010, Social Democrats, many of them union members, could yet stage a rebellion in the full Bundestag, which must, like the Bundesrat, approve any deal that is reached by the negotiating committee.

Matters are further complicated by the play of special interests. Some *Länder* do not want to do away with tax breaks for commuters, for instance, because their people tend to drive a long way to work. Roland Koch and Edmund Stoiber, premiers of Hesse and Bavaria respectively, are also partly motivated by hopes that one of them, not Mrs Merkel, will be the next opposition candidate for chancellor.

An eventual compromise is still more likely than not. Pressure on the opposition to fulfil Mrs Merkel's promise by striking a deal is mounting. Business wants something, even if it considers Agenda 2010 as a whole too timid. *Bild*, Germany's biggest tabloid, is waging a campaign for tax cuts. If the negotiations fail and the economy stumbles, the blame might be laid on the Christian Democrats.

The key leaders, including Mr Schröder and Mrs Merkel, are likely to hold a summit early next week to hammer out an agreement that includes the advancing of tax cuts, but also shaves subsidies and makes

it easier to fire people. Germany's neighbours certainly hope for this, for their economic fortunes rest on a German recovery. Without a seasonal gift of Agenda 2010, Germany could become the grinch that stole Europe's Christmas.

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Islam in France

Scarf wars

Dec 11th 2003 | PARIS
From The Economist print edition

Arguments over banning the headscarf come to a head

Get article background

IT WAS a carefully crafted photo opportunity, chosen at a time of feverish debate at home. In Tunisia last weekend, President Jacques Chirac dropped in on the French lycée and took questions from schoolchildren. The image was potent: the president of a secular European state, visiting a secular Muslim state, surrounded by western-looking Muslim schoolgirls, not a headscarf in sight. This, the president seemed to be saying, is my kind of Islam.

AFP

Where Chirac felt no aggression

Next week Mr Chirac may announce plans for a new law to ban the wearing of the headscarf and other religious symbols in state schools and other public buildings. But first he wants to study the recommendations of a commission into secularism that reported on December 11th. It advocated a stiffening of existing rules barring religious signs that are “ostentatious” or “provocative”; all symbols that are *ostensible* (obvious) should be banned.

While in Tunisia, Mr Chirac described the wearing of the headscarf as “a sort of aggression”. His party favours a ban. But this is no right-wing whim. A cross-party parliamentary committee has advised a strict prohibition on all “visible” religious symbols, crucifix and yarmulke included. A poll says that 57% of French people want the headscarf banned. One of the few voices against is the Catholic church.

To proponents of a ban, the principles are simple. The secularism of the French state, inspired by revolutionary ideas and late-19th century anti-clericalism, protects state education from religious proselytising. Faith belongs only in places of worship, or private confessional schools: so no nativity plays or Christmas carols in the local primary school. Yet in practice, things are murkier. Some Catholic schoolchildren wear a crucifix; some Muslim schoolgirls get away with a (smallish) headscarf.

Lurking behind the defence of secularism is a clutch of other motives, some more honourable than others. At the respectable end, a feminist movement, which includes many women of North African origin, considers the headscarf to be an intolerable “symbol of female oppression”. Dozens of well-known French women, from Isabelle Adjani, an actress, to Fadéla Amara, a women's-rights leader, have signed an open letter to Mr Chirac, in *Elle* magazine, pressing for a ban.

There are also fears about the influence of extremist Islamic groups, many with foreign sponsors, that find ready recruits on France's isolated housing estates. Allowing the headscarf, goes the argument, is a step towards other militant demands, from the insistence of Muslim men that their wives be treated by female doctors to a refusal to read certain western set texts in school. Less respectably, many French people are uneasy about culturally assertive Islam, a fear easily exploited by the far-right National Front.

All these strands now seem to be wrapped up in one question to be answered with a single law—as if, by banning the headscarf, the entire problem of integration could be resolved. Yet in truth France has devoted so much energy to the headscarf that it is in danger of losing sight of such bigger worries as how to break the cycle of violence, including rapes of young Muslim girls by Muslim gangs; and, above all, how to help French Muslims succeed.

France is home to some 5m Muslims, but the country's self-image—its football team aside—remains lily-white. There are plenty of respected writers and academics of North African origin. But there is no Muslim member of parliament, no prefect, no leading French Muslim businessman, no television news-reader. That is why occasional gestures such as the National Assembly's decision this summer to drape 14 portraits of black and brown French women across its façade are so arresting.

In a bid to change things, Nicolas Sarkozy, the interior minister, has argued not only that young French Muslims need role models other than footballers, but that “positive discrimination” might help. A Muslim prefect, he promised, would be named soon. His suggestion was promptly dismissed by Mr Chirac. All French people are equal before the law; France does not recognise ethnic minorities. “To appoint people because of their origin”, declared Mr Chirac bluntly, “is not acceptable”.

Thus were the stirrings of a potentially enlightening debate squashed. The fear is that recognising ethnic groups would lead inexorably to American-style “affirmative action”, quotas, and the ghettos that group-based multiculturalism is said to produce. Yet France is not quite as allergic to group rights as it claims. Mr Sarkozy has set up a French Council of the Muslim Faith to give an institutional voice to Muslims. A “parity” law requires equal numbers of female and male candidates at elections. And there is special access to higher education for those from deprived areas. But why spend time on complexities, when you can reduce the issue to a simple one of covering a woman's hair?

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French politicians' spouses

Cécilia's day

Dec 11th 2003 | PARIS
From The Economist print edition

The rise of the political wife

AFP

Paris's power pairing

THE double doors to the elegant office burst open. “Maman!” cries a small boy, rushing into his mother's arms. “I'm working, darling, go into Papa's office,” she smiles, indicating another set of double doors. An ordinary after-school scene. Except that Papa is Nicolas Sarkozy, France's interior minister, and Maman is Cécilia, his closest aide. Welcome to the country's hottest power couple—and to the celebrity political wife.

Tiring of dysfunctional royals from Britain or Monaco, the press has lit on a new phenomenon. Wives of political leaders have graced covers of celebrity titles, such as *Gala*, but also of mainstream news magazines. Posing in evening dress, snipping shrubs, reading bed-time stories: the political wife is on show. There is even a book about the new breed, by Elisabeth Chavelet, a journalist at *Paris-Match*.

In part, this is straightforward voyeurism. The French may consider that the public interest stops at the bedroom door, but they like to ogle all the same. The often glamorous wives of ministers, such as Marie-Caroline, the 27-year-old third wife of Luc Ferry, the education minister, always make good copy.

But France is mesmerised by more than mere glamour. A new crop of high-flying professional women has emerged. Some thrive in their own right, steering clear of politics. Clara Gaymard, for example, runs the French Agency for International Investment, while her husband, Hervé, a fellow graduate of the elite Ecole Nationale d'Administration, is agriculture minister. But others, such as Laure, wife of Xavier Darcos, the schools minister, work alongside their husbands. And none does so more visibly than Cécilia Sarkozy.

Mr Sarkozy, a one-time haughty mayor of Neuilly, a posh Paris suburb, has metamorphosed into the man many French people want as their next president. His secret weapon? Cécilia. The minister's second wife dresses, organises, gate-keeps and advises her hyper-energetic husband—and, above all, keeps him grounded. “A minister by definition is cut off from everyday life, in a way a woman isn't,” she says. If the minister jets off to meet firefighters or gendarmes, she not only plans the trip but is on the plane. If the minister appears in a television studio, she is there in the front row of the audience.

For now, Mrs Sarkozy dismisses calls for accountability, since she works unpaid. But this could change. She is thinking of standing in the Paris region at next March's elections. In one sense, this is little different to Bernadette, an elected local councillor and informal adviser to her husband, President Jacques Chirac. But a more telling model may be Hillary Clinton. Nicolas Sarkozy for president in 2007? And Cécilia for mayor of Neuilly?

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Charlemagne

Negotiating by night

Dec 11th 2003
From The Economist print edition

The joys and the heartaches of European Council meetings

“WE CANNOT do business like this in the future,” was the verdict of an exhausted and exasperated Tony Blair after the European Union's marathon summit in Nice in December 2000. Tough luck, Tony. All the signs are that this weekend's summit in Brussels will be just like Nice—and maybe even worse. Once again, European leaders will haggle through all-night sessions over a vastly complicated legal text. Once again, the toughest issue is the one that almost proved a deal-breaker at Nice: the voting weights of EU governments in the Council of Ministers. The Brussels summit could even prove more fraught than Nice, because there are 25 countries at the table, not 15.

Most EU summits nowadays are routine affairs that last just a day and a half. But when political leaders get together to negotiate a new treaty (as they seem to have done with increasing frequency over the past decade or so), things can rapidly spiral out of control. These summits are what officials call, with a mixture of dread and relish, “five-shirters”. They drag on for days longer than scheduled and usually finish in the small hours of the morning. European leaders often emerge blinking and unsure about precisely what they have agreed to.

Things were meant to be different this time. The draft constitution on the table this weekend was produced by an 18-month-long Convention on the Future of Europe, chaired by a former French president, Valéry Giscard d'Estaing. In theory, the convention was supposed to have produced a document so perfectly balanced that the assembled leaders could happily sign up to it over a cup of coffee. Some hope. The issues involved are far too controversial to be settled so easily. The only way to make sure that leaders reach an agreement, insist experienced Eurocrats, is the traditional one: call a summit, impose a deadline and force them to keep talking. A tactic much loved by the KGB, sleep deprivation, can be surprisingly effective. The longer and more exhausting the negotiations, the more that politicians around the table are inclined to compromise.

The pressure on European leaders is greater because they have to do the most delicate negotiating without the help of national officials. The only people allowed into the room in Brussels will be heads of government and foreign ministers, plus a few EU officials. “It's like an exam,” says one diplomat. “The leaders have to cram all the details into their heads ahead of time and hope they get it right on the night.” All the politicians carry fat briefing books, but they rarely have time to find the right page. Every 20 minutes or so, a note-taker leaves the conference chamber and goes next door to a room in which each country has a solitary official. The note-taker tells these national diplomats (known in EU jargon as Anticis) what has just been said. They scribble down a text and fax it through to their delegations, where assorted ambassadors pore over the transcripts, hoping desperately that their prime minister or president has not inadvertently given away the crown jewels. Even if he has, it will usually be too late for officials to jump in. By the time they have seen the transcripts, the debate has moved on.

Only rarely can officials sneak into the room to advise their leaders. If one of the politicians in the negotiating chamber feels in urgent need of advice, he can press a panic button. At that point a light goes on in the Anticis' room, and an official, assuming a grave “my country needs me” face, rushes in. National civil servants are meant to offer advice and then leave. But this rule has been bent *in extremis*. At the Maastricht summit in 1991, Britain's Sir John Kerr hid under the table and continued to pass notes to John Major, his prime minister.

Not all the leaders' requests are for advice. “If Chirac's light goes on”, says one official, “it usually just means that he wants another beer.” The French president's habit of drinking beer throughout summits may account for the entertaining nature of his post-summit press conferences. The only other regular drinker is Jean-Claude Juncker of Luxembourg, who always has a glass of brandy before him (Germany's

Helmut Kohl preferred a plate of food). Mr Juncker is also a heavy smoker. Although the conference room is festooned with no-smoking signs, all the leaders are thoughtfully provided with an ashtray, which tells you something about European attitudes to regulations.

Betting on Berlusconi

The few senior officials who manage to stay in the room throughout the negotiations are those working for the EU's central bureaucracy. They will do a lot to advise Silvio Berlusconi, the Italian prime minister, who has the unenviable task of chairing the meeting. Three French officials working for the council—Pierre de Boissieu, Max Keller and Jean-Claude Piris—will play a vital role in dreaming up and testing any possible compromises. But in the end much of the success or failure of the summit will rest on the shoulders of Mr Berlusconi himself.

As a billionaire businessmen, he should, in theory, have the combination of charm and command of detail required to wrap up a complex negotiation. But Mr Berlusconi has been ill in recent weeks with a prolonged bout of gastro-enteritis. Even when he is on top form his performances at European summits have been erratic. He specialises in dirty jokes and dark warnings about the dangers of communism. His relations with Romano Prodi, an Italian political rival who, as European Commission president, will also be in the chamber, albeit largely as a bystander, are notoriously fractious.

Those looking for flexibility from the Poles see it as ominously symbolic that Leszek Miller, the Polish prime minister, plans to attend the summit in a full-body plaster cast, after a helicopter accident. Brussels officials who have lived through many crisis summits remain confident that a deal will be struck in the end—it always is. But in the new enlarged EU, the traditional way of doing business could yet go awry.

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Housing market

Can Gordon fix it?

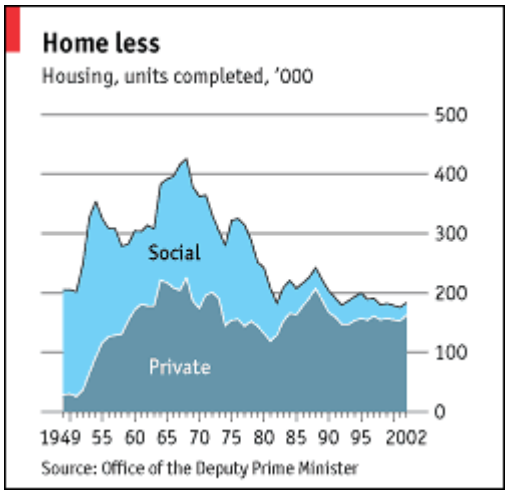
Dec 11th 2003
From The Economist print edition

No he can't

THE budget deficit may be swelling at an alarming rate, but Gordon Brown can still point to an enviable record of economic stability. Since he became chancellor in 1997, the economy has grown without a break. But this gratifying picture of overall economic stability has been marred by the renewed volatility of the housing market. In the past six years, house prices have boomed. Now the spectre of a possible bust hangs over the economy.

In June, Mr Brown identified the housing market as a principal reason why Britain was not ready yet to join the euro. A combination of features makes Britain's property market distinct: a lot of owner-occupiers, a high level of mortgage debt, a history of sharp house-price fluctuations and a system of mortgage finance unusually dominated by short-term, floating-rate loans. All this means that interest rates set by the European Central Bank would have a disproportionate effect on British homebuyers if Britain were to adopt the euro.

The chancellor blames much of the volatility of the housing market on a failure to build enough new homes. That diagnosis was confirmed this week in a report to the Treasury from Kate Barker, a member of the Bank of England's monetary-policy committee. Housebuilding has fallen sharply over the past 30 years (see chart), as the public sector has pulled out of the market and the private sector has failed to fill the gap. Ms Barker's review maintains that England needs an extra 39,000 new homes a year—an increase of 28% on the current rate—simply to keep pace with new household formation.



Ms Barker points the finger at both planners and housebuilders. In the past ten years, the planning system has become tighter, partly because of the government's stipulation that 60% of new homes should be built on “brownfield” (already used) land. And often planners, under pressure from locals, resist development. Refusals for planning permissions for major housing developments have risen from 15% in the late 1990s to 25% in 2002, according to the study.

But Ms Barker also criticises housebuilders. She clears them of hoarding land in the hope of windfall gains when house prices rise. But she depicts an unenterprising industry that is reluctant to tackle complex brownfield developments. The industry, she says, competes more to acquire land than to satisfy consumers, who are often unimpressed by the quality of their new homes.

Ms Barker will make her policy recommendations next spring. This week's report suggests that she will argue for further steps to release more land together with reforms to ginger up the industry and tax incentives to encourage more institutional investment in property. But increasing housebuilding will be a long haul, not least since the industry already suffers severe skill shortages.

Even if there were a sizeable increase in supply, the impact on house prices would be limited for some time because the number of new homes is so small compared with the existing stock. Suppose that, over four years, 25% more new homes were built. This increase would raise the housing stock by only 1%, which in turn would lower prices by no more than 2%, calculates John Muellbauer, a housing economist at Oxford University.

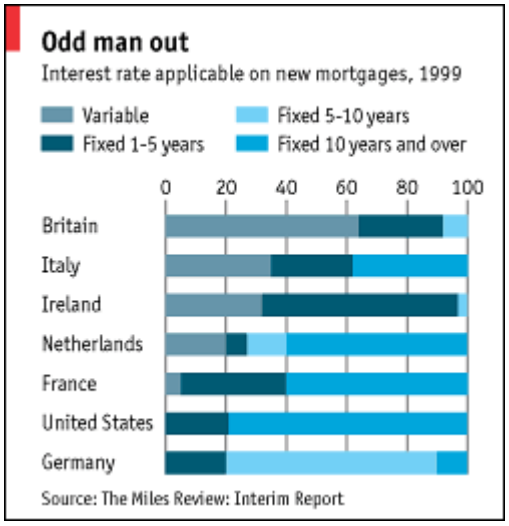
The impact could be larger, he accepts, if the new homes were directed to the areas where housing shortages are most acute and if the programme dampened expectations of future house-price increases. However, Christine Whitehead, a housing economist at the London School of Economics, is sceptical about Mr Brown's ability to combat the anti-development pressures that are so powerful in southern England. The fundamental problem she says is that “the richer we are, the nimbier we become”.

Mr Brown will not find it much easier to wean Britain's borrowers off their fixation on floating-rate loans. In another report to the chancellor, David Miles, a financial economist at Imperial College, London, said that Britain's mortgage market is not working as well as it should. Ill-informed consumers, he maintains, focus on the immediate financing costs of mortgages even though the debt will typically last for decades. They fail to grasp the potential benefits of a long-term fixed-rate loan because they do not understand risk properly. Lenders offer new borrowers cut-price loans at the outset, which is possible only because these inducements are cross-subsidised by existing borrowers.

VAT's the answer

Like Ms Barker, Mr Miles will suggest concrete reforms next spring. Clearly these will include steps to improve information for borrowers. The Office of Fair Trading may be asked to investigate the industry's pricing structure. But it is difficult to see how the highly competitive mortgage-lending market is failing borrowers other than those too dozy to refinance their mortgages at better deals.

The message to Mr Brown from both reports is that there are no quick-fix solutions. Reform of the mortgage market will meet consumer apathy; reform of housing supply will meet political resistance. The Barker review may, however, pave the way for the chancellor to impose VAT on new homes. This would raise a handy £3.5 billion and the bill, says Ms Barker, would be passed on to landowners. But if Mr Brown wants more houses built, he may have to spend a lot of that subsidising new housing for the poor.



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The European constitution

Gisela's epiphany

Dec 11th 2003
From The Economist print edition

Unease about the constitution is not confined to Tories

ASSUMING he can negotiate his way through the minefield of Lord Hutton's report and the vote on university top-up fees, a third peril awaits Tony Blair in the New Year. The prime minister's hopes of defusing the explosive potential of the European Union's new constitution appear more unrealistic by the day.

If not at this weekend's summit of Europe's leaders, then some time early next year, Mr Blair expects to announce that Britain has got its way over the “red lines” it has made so much fuss about. Having thwarted EU encroachment on national powers over tax, social security, criminal law and foreign policy, Mr Blair will declare victory in securing a treaty that Britain can happily sign up to. A referendum? What on earth for?

That at least is the plan. Unfortunately for the prime minister, it is already looking somewhat frayed around the edges. In recent weeks, both the foreign secretary, Jack Straw, and the chancellor, Gordon Brown, have been making some very tough-sounding noises about the constitution.

Neither are great admirers of Brussels-driven integration. Mr Straw has sided with the chancellor in his war of attrition with Mr Blair over the euro. For his part, Mr Brown enjoys nothing better that lecturing his fellow European finance ministers about their failure to embrace Anglo-Saxon flexibility.

Mr Straw and Mr Brown may just be playing their part in some elaborate hard cop, soft cop routine with the prime minister, designed to bolster him against the expected onslaught from the French and Germans. It is more likely, however, that their threat to derail the constitution rather than compromise over what they say are non-negotiable issues is an attempt to hold Mr Blair's feet to the fire.

Mr Straw's observation two weeks ago that the enlarged EU could carry on perfectly well without the constitution caused a sharp intake of breath in Downing Street. Although the foreign secretary was not actually rebuked, the prime minister's spokesman promptly declared that Britain would still be going to the summit in the expectation of reaching agreement.

This week, there was more trouble for Mr Blair—from a most unexpected quarter. Gisela Stuart, the German-born, impeccably Blairite, pro-European MP chosen to be Labour's parliamentary representative on the convention drawing up the constitution, went public with her misgivings about the whole process.

In a pamphlet published by the Fabian Society, Ms Stuart argues that the government should be wary of a constitution drawn up by “a self-selected...European political elite” who were engaged in a politically motivated attempt to transfer power to Brussels irrevocably. Ms Stuart says: “Not once in the 16 months I spent on the convention did representatives question whether deeper integration is what the people of Europe want, whether it serves their best interests or whether it provides the best basis for a sustainable structure for an expanding union.”

Ms Stuart believes that at the very least MPs should have a free vote on the constitution. But her damning critique will also strengthen calls for the referendum that Mr Blair is so adamantly against. The *Sun* newspaper, not usually given to publicising Fabian pamphlets, but vigorously pro-referendum, splashed Ms Stuart's misgivings across two pages.

So far, Mr Blair has been able to ignore the clamour for a referendum. As long as it is confined to the opposition Tories and the anti-European press, he should get away with it. But now he must reckon on growing unease both within the government and among Labour MPs. Ms Stuart's pamphlet could not

have come at a more awkward time.

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Illegal drugs

E commerce

Dec 11th 2003
From The Economist print edition

Why it's so difficult to launch a new illegal drug

Get article background

THIS summer, a small white pill appeared in nightclubs and at music festivals. It looked like Ecstasy, but as the £10 price tag hinted, it was something else: 2C-I, a newer and more potent hallucinogen. Psychonauts (early adopters, in square-speak) quickly seized on the drug, and others are expected to follow. In October, the National Criminal Intelligence Service alerted police forces to a rising threat. Perhaps more significantly, *Mixmag*, a clubbers' magazine, pronounced 2C-I “a national mash-up waiting to happen”.

The timing is certainly fortuitous. Boredom and rising tolerance have done for Ecstasy, the 1990s club drug of choice, what stern warnings could not do. Last week, a Home Office survey found that only 2.6% of 16 to 24-year-olds had used it in the past month; a year ago, 3.6% had.

Worse, from the dealers' point of view, prices of Ecstasy tablets have fallen from more than £20 in the late 1980s to £4 or less today. Profit margins have shrunk to as little as a pound a pill, which hardly justifies the opprobrium and long prison sentences that go with the trade. Mat Southwell, of the Dance Drugs Alliance, a hedonists' advocacy group, says that many dealers now see Ecstasy as a means of keeping customers, nothing more. Some have begun to push cocaine, although that is a paraphernalia-filled business unsuited to the club market. Dealers would prefer something that is both easy to take and profitable, which is where the new pills come in.

In some ways, the drug market would seem to favour new entrants like 2C-I. Manufacturing know-how is widely available, thanks in part to a Californian chemist, Alexander Shulgin, who puts new recipes into the public domain, together with tasting notes (“my conversations were incredibly clear and insightful,” he says of his 2C-I experiment). Fierce competition among producers, importers and dealers means that products can be brought to market cheaply. And there are armies of early adopters to spread the word.

The problem, as with all illicit products, is quality control. When Ecstasy first appeared, it was branded with symbols which inspired some trust. But factories soon began putting the same symbols on amphetamines and caffeine tablets. Pill-poppers have responded to this problem partly by putting faith in dealers (not always a reliable source of information), and partly by lowering expectations. James Fitchett, a Nottingham marketing expert, says that teenage Ecstasy users will sooner concoct personal explanations for bad experiences than blame a beloved product.

All of which explains why new drugs are slow to catch on, and slow to be discarded. The successful ones are valued not so much for their chemical properties, but for their associations with new ways of going out. For a new product to succeed, it will need amenable venues, distinctive fashions, and new music—preferably stuff that outsiders find intolerable.

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Christmas cards

Bah, humbug!

Dec 11th 2003
From The Economist print edition

The government sends out bland secular Christmas cards. How traditional

WHAT better Christmas present for the fogey in your life than a gift-wrapped scandal, featuring taxpayer-financed political correctness? A row this week about a blandly secular government Christmas card set off a string of polemics against multi-cultural killjoys determined to erase holiness and history from a centuries-old holiday.

Sadly, this isn't quite the tale of lost traditional values that it at first appears. Leaving aside the (at best) tangential connection between Christianity and the way Christmas is celebrated, there is little reason to be cross about the pictures on the cards. So the culture ministry's offering features a collage of multi-cultural images? Well, no less a person than the Archbishop of Canterbury, Rowan Williams, sent out a card this year with nothing more biblical than a photograph of his home, Lambeth Palace, in the snow.

Secular and pagan images are not just a well-established part of Christmas. They are no more prevalent than in the past. Mary Searle-Chatterjee, an anthropologist who studies Christmas cards at Manchester University, notes that “biblical scenes were never common, even when the majority of people went to church.” Church concern about secular imagery began in the 1880s as church attendance declined; a study in 1946 by two priests showed that only a tiny percentage of the cards surveyed had any religious content.

The really odd thing about British Christmas cards is not their secularity, but their cheesiness. The second-biggest selling category in Britain (after traditional snowy scenes) is “cute cards”, scarcely known elsewhere. These typically feature winsome young animals engaged in human pursuits: “like idealised children: mischievous, lovable and clever” says Ms Searle-Chatterjee.

An odd business perhaps, but healthy. A study by Taylor Nelson Sofres, a market research firm, shows Christmas cards making up some 70% of the £1.2 billion ($2.1 billion) greetings card market. “Just as the Christmas tree embodies the family, the cards embody relationships, however minimal. You have the comfort of seeing yourself in your living room surrounded by symbols of all the relationships you have.” says Ms Searle-Chatterjee. Try doing that with your e-mail in-box.

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Top-up fees

Vive la différence

Dec 11th 2003
From The Economist print edition

Opinion shifts on tuition fees, and the argument focuses on variability

IT SEEMS an arcane question for the prime minister to stake his political future on. But the fight now raging inside the parliamentary Labour Party is no longer about the general question of whether universities need more money (conceded); nor is it about whether that money should come from graduates paying back part of the cost of their course once they are earning (also conceded). The argument now is mainly about whether the cost of different courses should vary.

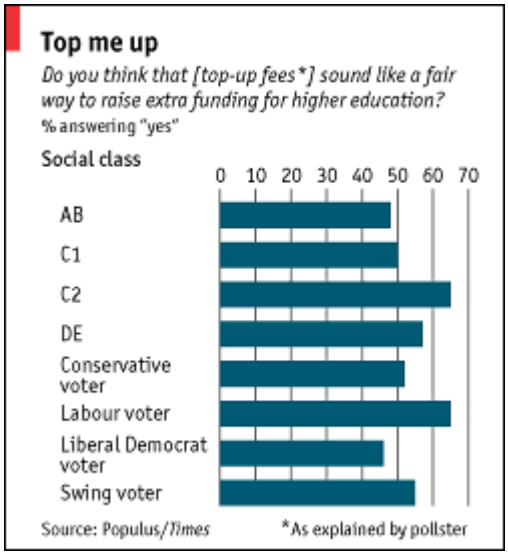
At the moment higher education for domestic undergraduates costs the same everywhere. The annual tuition fee for a course—a bad one, or Oxbridge's best—is £1,125. The government wants universities to be free to charge up to £3,000. Many of Tony Blair's opponents will, reluctantly, accept that fees should be higher—£2,500 is a newly suggested flat-rate figure. But they still resist the idea that some universities should be able to charge more than others.

Letting good universities charge more than bad ones would, they argue, make it even harder for poor students to get a good education. The rich will pay more to get in to the best universities; the poor will pay less, and go to the worse ones.

The government's supporters counter that price control hurts poor students most: they are the ones that most need cheap and flexible courses. What's more, flat-rate fees will mean that people will pay the same for a (more valuable) degree at Oxford as for a (less valuable) degree at, say, Thames Valley. Since the best universities will always be dominated by the best-off, the rich will benefit and the poor suffer from a flat-fee system.

Steven Schwartz, the vice-chancellor of Brunel University, also notes that variable fees are central to the government's plan to encourage universities to try harder to attract more from poor backgrounds. Under the original scheme, only those deemed to be doing enough on this front would be allowed to charge the full £3,000. With a flat fee, that pressure would vanish.

None of this will convince those Labour MPs for whom egalitarianism is more important than fairness. But in any case, there are signs that the government is gaining ground. Most polls in past months showed solid majorities against top-up fees. This week, a survey for the *Times* by Populus, a pollster (see chart), showed support for top-up fees among all social classes except professionals. That is not wholly surprising: they are the main beneficiaries of the current system.



The big question now is what concessions the government will have to introduce to get the bill on top-up fees through Parliament. One idea is to raise the earnings threshold at which graduates start paying back their fees from the planned £15,000 a year to £20,000 or even higher. Another is to levy money from the universities that charge £3,000 to fund bursaries elsewhere. That risks undermining one of the central goals of top-up fees: to make sure Britain keeps a handful of world-class universities. But if it does, it won't trouble Labour rebels, who hate the fact that some universities are better than others.

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Military logistics

Making do

Dec 11th 2003
From The Economist print edition

All right for the fight, but only just

EPA

Get your kit on

AMATEURS talk about strategy, says an old military adage: experts worry about logistics. According to that rationale, the war in Iraq will have impressed the amateurs but agitated the experts, especially the ones in Britain.

During the run-up to the conflict, British newspapers were full of stories about the inferiority of the kit and food being foisted on British troops by their callous government, in comparison with the luxuries enjoyed by their American allies: the Americans, it was said, had nicknamed the Brits “the borrowers”. At the time, the Ministry of Defence (MOD) largely denied the problems. A new report on British operations in Iraq from the National Audit Office (NAO) vindicates the whingers.

True, Britain deployed a force comprising roughly the same amounts of men and kit as the one it despatched to the 1991 Gulf war, in half the time. British tanks did not grind to a halt in the Mesopotamian sands, as many had done during an exercise in Oman in 2001. A creaky radio system performed better than expected. But despite urgent procurement efforts, says the NAO, troops at the sharp end suffered shortages of desert clothes and boots, equipment to cope with non-conventional attacks (such as filters for tanks and armoured vehicles), spare parts, night vision equipment and munitions.

This was only partly because of actual shortfalls in stocks—some of which the MOD justifies on the grounds that preparing in full for every contingency would be inefficient. (A reasonable argument, up to a point; but the economising proves false when urgent orders are costlier than ordinary ones or fail to arrive in time, and the top brass should arguably have been a little readier for a fight in the desert.) In some cases, the stuff got as far as the port in Kuwait, then disappeared into a bureaucratic fog. Nobody knew where it was, so nobody could take it to where it needed to go. Anxious officers issued duplicate orders.

The results were sometimes comical, or rather they seem so now. On one occasion, a team was sent all the way from Kuwait to Oxfordshire in an unsuccessful bid to find some equipment. So little confidence did troops have in the distribution system that there was widespread pilfering of kit as it made its way up the supply chain. The MOD says it will find a way to track its assets better, thus rectifying a problem that has afflicted major operations since at least the 1991 war. Had, say, British troops been bombarded with chemical weapons and been unable to defend themselves properly, there would have been nothing funny about the failure to sort out the logistical mess.

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Transport

The road to nowhere

Dec 11th 2003
From The Economist print edition

Britain gets its first toll motorway—but no more

BRITAIN'S first toll motorway opened this week with appropriate fanfares. The transport secretary, Alistair Darling, cut the ceremonial tape of the 27-mile Birmingham Northern Relief Road, operated by a private consortium, Midland Expressway.

The scheme's success depends on 50,000 motorists—one in four of those travelling on the hellish M6—valuing their time more than the toll. Midland Expressway, owned by Autostrade, an Italian company, and Macquarie Infrastructure, an Australian company, has set the initial charges at £2 per car, £5 for a van and £10 for a lorry.

Although drivers interviewed on the road's first day of operation seemed delighted, there has been much grumbling. Lorries say it is too expensive. The consortium's contract allows it to set charges at will over its 50-year contract. A Macquarie executive tactlessly let slip that his company was in a position to charge British motorists “whatever we like”.

If experience on mainland Europe is any guide, British drivers will be willing to pay to save time and temper. In the United States, “hot” lanes—newly built fast lanes by the side of motorways which drivers pay to use—have also proved popular.

But however successful this road is, it will not be the first of many. This scheme has been two decades in the making. There are no others in the pipeline. Despite the success of London's congestion charge, the government still regards road tolls as too politically sensitive—and even the Conservatives, who originally got this scheme under way, won't touch the idea.

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Government IT

The proof of the pudding

Dec 11th 2003
From The Economist print edition

Can the ambitious plan to digitise the NHS avoid the fate of other IT projects?

THE digital overhaul of the National Health Service (NHS) is hugely important, and not just because it may cut bureaucracy and improve efficiency in time for the next election. The computerisation of patient records, appointments and hospital administration, at a cost of £10 billion-plus, is one of the world's largest IT projects. What makes it really interesting is the chance to buck a dismal trend: large IT projects, particularly government ones, tend to go horribly wrong.

On December 8th the Department of Health awarded three big contracts. BT was awarded one of five regional 10-year contracts, worth £1 billion, to provide systems and support for hospitals and surgeries in London. A second regional contract, worth £1.1 billion, went to Accenture, which will do the same in the North East. The remaining three regional contracts will be awarded later this month. BT was also awarded a 10-year, £620m contract to build and run a national database of electronic patient records. (The idea is to allow patient information to be accessed quickly, wherever they are being treated.) A £64m contract to build a national appointment-booking system went to SchlumbergerSema in October.

Will things be different this time? The structure of the contracts certainly is. Rather than award a contract to a single vendor—and then risk being “locked in”—Richard Granger, the NHS's IT supremo, has divided the project into several big chunks. The result, says Tola Sargeant of Ovum, a consultancy, is that each chunk is large enough to appeal to suppliers, but also keeps them on their toes. If one of the five regional suppliers fails to cut the mustard, for example, one of the other four can be asked to step in.

Tim Smart, the head of BT's systems arm, which is building the new electronic records system, speaks of “a balance of carrots and sticks”. Suppliers must post bonds, which they forfeit if they back out. They are expected to reach specific project milestones on time and on budget. If they fail to deliver, says Mr Granger jovially, “they don't get paid”.

Mr Granger, a former e-government specialist from Deloitte Consulting, is different too. “He has brought a very commercial approach to procurement,” says Mr Smart. Suppliers are free to choose what technologies to adopt, for example, unless Mr Granger secures a better deal in a particular area. Last week he announced that the NHS was evaluating the use of Linux-based desktop software from Sun Microsystems instead of Windows—a move widely seen as a negotiating tactic to get Microsoft to drop its prices.

Unlike several high-profile IT fiascos, such as the disastrous introduction of tax credits by the Inland Revenue in April, the NHS project is being introduced in phases. The national electronic records system, for example, will run parallel to existing records kept in hospitals and surgeries. It will be up and running by the end of next year, but will not be fully loaded until 2010—so there will be no “big bang”.

Finally, there is the “Gateway review” process, devised in response to the McCartney report on IT failures, published in May 2000. This involves a six-step series of reviews and appraisals to ensure IT projects make sense to start with, and then stay on target. It sounds good: but that troublesome tax-credit system passed its Gateway reviews with flying colours. In the subsequent foul-up, an estimated £2 billion was overpaid, while other payments were delayed for weeks. EDS, the company responsible, is now expected to lose its contract with the Inland Revenue when it expires next year. Gateway's defenders, however, insist that it was not properly applied to the tax-credit project, which had already begun when the Gateway system was introduced.

The electronic records and booking systems are due to start working next year. But even if these function smoothly, the project could still be derailed in other ways. It is not compulsory: patients will have the

right to opt out of the electronic record system, and health-care trusts will have to opt in. So the system will have to be seen to deliver real benefits to ensure widespread take-up. For all their optimism, its supporters still have everything to prove.

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Bagehot

The pendulum swings

Dec 11th 2003
From The Economist print edition

Voters are getting grumpy about tax-and-spend

FOR a left-of-centre party, it was an extraordinary achievement. During its first six years in power, Labour made tax go away as an issue in British politics. But now it is back, hogging the limelight as only tax can.

A spate of opinion polls (timed to coincide with this week's pre-budget report) and the publication of the annual British Social Attitudes survey have confirmed what many had begun to suspect: the willingness of voters to pay more tax in exchange for the promise of better services is under strain. The sound of political tectonic plates grinding is unmistakable.

All three polls told a similar story. By a large majority, people think they are paying too much tax and there is little faith that increased spending is improving public services. In two polls, around 80% reckoned that a large part of the money was being wasted. A Populus poll for the *Times* and an ICM poll for Reform, a think-tank, found, respectively, that 59% and 76% thought the government's tax-and-spend policies were damaging the economy's competitiveness.

The government must hope that this is nothing more than a snapshot of opinion before the extra spending bears fruit. And it is true that, according to both ICM and a YouGov poll in the *Daily Telegraph,* almost half the respondents (50% and 44% respectively) still think that taxes should go up to fund better services. Unfortunately for the government, the long-run data offer no such comfort. Hostility to overtly redistributive policies has been growing precisely since the time when the spending gusher was opened. The figure of 44% compares with 68% at the time of the last election in 2001 and 74% when Labour was returned to power in 1997. It is the lowest number in favour of extra spending since 1979, when Margaret Thatcher took office.

The Social Attitudes survey underlines the trend. A study by two academics, John Curtice and Stephen Fisher, demonstrates that while Mrs Thatcher never succeeded in converting public opinion to her way of thinking, Tony Blair seems to have done the job for her. People who identify with the Labour Party are now much less likely to hold left-of-centre views than they were during Thatcherism's heyday (58% in 2001 compared with 84% in 1987). At the same time, there has been a general drift rightwards in terms of declining support for policies intended to help the poor, especially among the young and the hard-pressed lower middle classes.

In part, this is explained by an electoral system which allowed Mrs Thatcher to win without ever being popular. But there is also a natural political pendulum at work. After a decade of Mrs Thatcher, swing voters might not have been ready to trust Labour, but they had had enough of what the Tories were offering. In the late 1980s and early 1990s, people had come to the view that public services were neglected and underfunded. Even so, it was not until Labour became New Labour that it proved capable of winning an election: the electorate wanted to redress the balance, but not too much or too quickly.

Tony Blair and Gordon Brown understood this. Unlike others in the Labour Party, they never took too seriously the opinion polls that suggested a vast reservoir of untapped public altruism. Hence their initial caution: the tight budgets in their early years; the reliance on “stealth” taxes to raise revenue; the (rhetorical) emphasis on reform as a precondition for additional spending.

It's not just taxes, stupid

That all seems a long time ago. The hefty rises in council tax and last April's hike in national insurance

contributions were anything but stealthy. Meanwhile, huge spending increases, especially on health, are only tenuously coupled with quite modest changes in working practices and organisation. The use of myriad targets to drive up performance has been an expensive flop. People don't need to know the appalling productivity numbers to sense that things are going badly.

New Labour's left-wing critics argue that the problem is not excessive taxation but excessive timidity in making the case for higher spending. They complain that, by constantly harping on about reform, the government encourages the idea that the public sector is inherently inefficient. If Mr Blair were only a little braver, in other words, people would welcome higher taxes.

Mr Blair and Mr Brown may have their differences, but they have no difficulty in agreeing that this would be electoral suicide. The chancellor was entitled to boast this week about the government's steady progress in eradicating child poverty. But he does not expect this to persuade voters of the need for more taxing and spending. He must now know that, until the better hospitals and schools that voters have been promised materialise, any more tax rises will mean rising voter fury. Those polls tell the government that it faces a future of heavy borrowing, tight spending rounds and unremitting reformist slog.

The tax pendulum may be swinging the Tories' way, but it will not necessarily do them much good. Michael Howard, the Conservative leader, and Oliver Letwin, the new shadow chancellor, are just as boxed-in as their Labour counterparts. If they talk of tax cuts, voters will worry that the performance of already-poor public services will be further undermined. There may be massive waste; but claims that slashing it will save billions provoke disbelief. Mr Howard is even thought to be contemplating a pledge to maintain spending at Labour's levels for the first two years of a Conservative government—an ironic inversion of Labour's 1997 commitment to stick to Tory spending plans for two years.

Frustrating though it is for Tory ideologues, in spite of all the moaning to the pollsters, voters are not yet demanding lower taxes. They want better value for the taxes they are paying. To make progress, that's what Mr Howard must offer them.

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Filling the world's belly

Dec 11th 2003
From The Economist print edition

Magnum

While the world's food is getting better, diet is getting worse. Consumers want their food tasty, cheap and convenient (and bad for them) but they want to be healthy too. Emma Duncan reports on the conflict between health and appetite

ONE of the great mysteries of the 20th century is how British food got so bad. In the Middle Ages, it seems to have been rather tasty and surprisingly Middle Eastern, with generous use of spices and almonds. There is nothing in history or literature to suggest that during the next five or six centuries it was any worse than anywhere else; but something seems to have happened in the 19th century, because by the 20th it was widely acknowledged to be disgusting.

A plausible explanation rests on the consequences of the industrial revolution. During the 19th century, so the argument goes, the rising middle classes aped the habits of the aristocracy. Titled women never went into the kitchen, so middle-class ladies abandoned cooking for more refined pursuits. The anonymous 19th-century author of “Dinners and Dinner Parties, or the Absurdities of Artificial Life” claimed that “a century ago the art of cookery was fashionable among English girls and Englishwomen...nowadays, piano mania and reception rooms are all that they think of; cookery is out of use, and only practised by the lower orders.”

Still, the question of what went wrong with British food is now largely of academic interest, because things have got so much better over the past 20 years. The kitchen has been recolonised and transformed into the middle classes' main room. Britons have rediscovered their interest in food (they don't actually cook, but that is another matter). The newspapers are full of recipes and restaurant reviews; the cities are packed with new restaurants exploring the latest taste fad; the television schedules with their celebrity chef programmes. (Though this may be ominous: a customer once said darkly to Alain Senderens, a French chef, that when the Romans started to erect statues of their cooks, everything started to go downhill.)

The most noticeable change is in the quality of produce available in shops. Twenty years ago, the only lettuce on offer was an iceberg, usually wrapped in cling-film and slightly yellow at the edges. Avocados were about as exciting as vegetables got. Tomatoes were either orange and hard as nails or red and mushy. These days Britain's supermarkets, among the best in the world, overflow with plenty and variety. Five years ago Tesco offered six or seven types of tomato. Now it offers 15. Quality has followed variety: several of these types of tomatoes smell and taste nice.

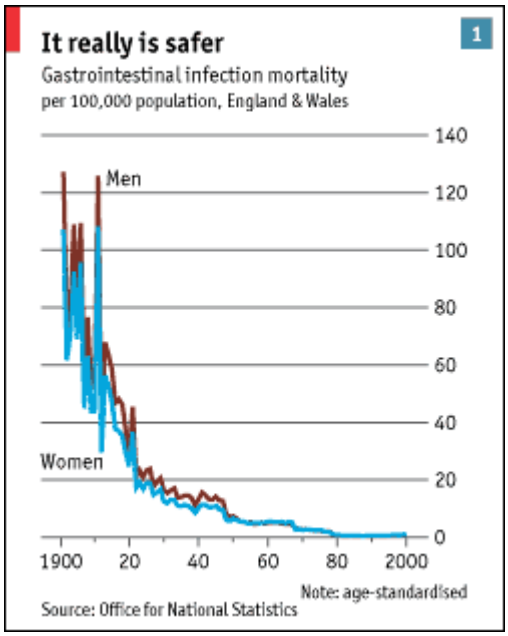
Britain started from a low base, so the improvement is particularly noticeable, but a similar change has taken place in other rich countries. And the food supply has improved in the developing world, where quantity is a more pressing issue than quality. According to the United Nations Food and Agriculture Organisation, the number of undernourished people in developing countries dropped from 920m in 1980 to 799m 20 years later, even though the world's population grew by 1.6 billion over that period. Economists no longer draw scary lines proving that the world is going to run out of food in a few decades.

Yet you would not think that so much has got so much better. The awfulness of modern food is as reliable a conversational staple among the chattering classes as house prices and school fees. Front-page stories regularly lambast food companies for making the nation's children sick. People in the business talk about a crisis of trust. “There's a step change going on right now,” argues Ray Goldberg, professor of agriculture and business at the Harvard Business School. “Never before have so many tools been available to improve nutrition and food economics. But never before has there been so much concern.”

This is partly because food is an emotional, as well as an economic, issue. People have strong feelings about it in a way that they don't about computers or personal-care products. Food plays a central part in religious symbolism (wafers, wine, kosher, halal, sacred cows). Software and shampoo do not. Food is about national identity. José Bové's attack on “McMerde” would not have had the same force if he had taken on a telecoms giant.

Food is about national security. The original justification for subsidising rich-world farmers was that it was the government's job to ensure the stability of the food supply. Food production is about social harmony. Supporters of agricultural subsidies maintain they keep rural communities together. And food is about the environment, too, because farming has made the countryside what it is, and change in the way food is produced means change in the countryside.

Worries about food have sharpened in recent years for two main reasons. One is Bovine Spongiform Encephalopathy (BSE), ie, mad cow disease. Never mind that food is far safer than it was (see chart 1). Never mind that only 142 people have died in Britain from the human version of BSE, mutant CJD, as many as die in two weeks of car crashes. BSE was a potent mixture of the consequences of industrial agriculture (which, by pushing prices down, encouraged farmers to force cattle into cannibalism) and dissembling politicians (who failed to regulate farming properly, and then failed to tell consumers what was going wrong).

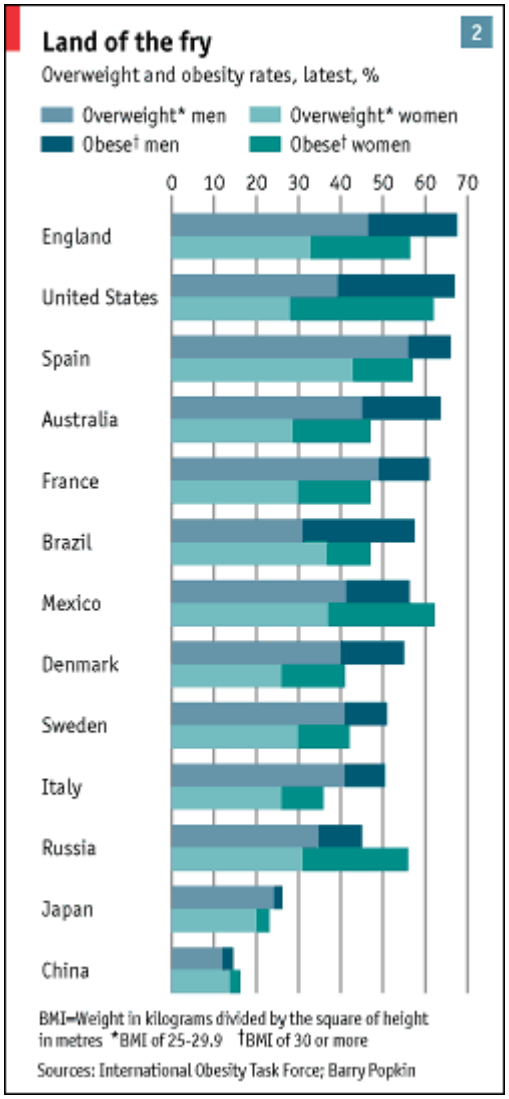


The other reason is obesity. In 2000 the World Health Organisation (WHO) produced a report that jolted governments awake about a growing threat to public health. Obesity, it said, was an epidemic. In some countries, more than half the population is overweight (see chart 2). And in December 2001, the United States surgeon-general, David Satcher, gave warning that obesity could soon kill as many people each year as smoking, and not because Americans are giving up the weed so fast.

Food companies like to argue that most of the problem is indolence. People sitting at their desks don't use up the calories they used to tilling the fields. That is certainly true but it does not explain the rise in obesity over the past two decades. During that period calorie output in America stayed pretty stable, while average daily calorie intake went up from 2,080 to 2,347—enough to explain the nation's weight gain. And it isn't just people in rich countries who are

getting fat.

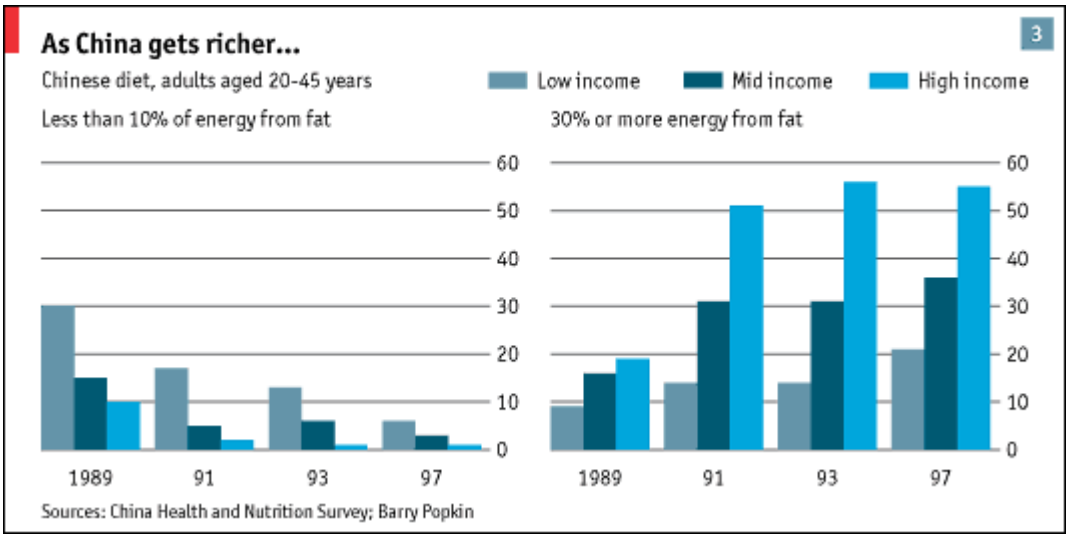
Paunchy Chinese



The treatments at China's Aimin weight-reduction hospitals are different from those at fat camps in the West. Acupuncture in the ear lobes, also used for drug addiction, plays an important part, as do herbal medicines and dance. Plenty of people seem to think it works. The first Aimin hospital was opened in 1992. There are now 22 of them in China. The chain has opened establishments in Thailand, Singapore, Malaysia and South Korea.

But if the treatments are different, the problem is similar. Although obesity rates in China are still lower than in rich countries, they are still alarming: 15% of men and 16% of women are overweight. In cities, where people are richer, many more are overweight: 33% in Beijing. The proportion of the population that is overweight is growing twice as fast as that in America in 1964-90. In the world as a whole, according to the WHO, more people are obese than malnourished.

That's because developing countries are going through a huge, and sudden, shift in the way they eat (see chart 3). Between 1989 and 1997, better-off Chinese cut their consumption of grains by 15%; their meat consumption increased by nearly half, their egg consumption doubled and their chicken and oils consumption tripled. What took a century to happen in the West has taken a decade in China, says Barry Popkin, of the University of North Carolina.



Bad times in the recent past may contribute to China's growing paunch. Some scientists think that adults who were malnourished in the womb or in infancy, as happened to many in the 1950s, may be

particularly susceptible to weight gain. There is a psychological effect, too. Children in China tend to spend a lot of time with their grandparents, says Jun Jing, author of “Feeding China's Little Emperors”. The grandparents were brought up short of food, so they think children should eat a lot. They tend to overfeed boys especially. And the one-child policy often means that there are four grandparents to a child, all of them competing to feed it.

The government, according to Zhai Fengying, deputy director of China's Institute of Nutrition and Food Safety, is not paying a lot of attention to the issue. “We go to high officials and tell them that this is serious, but they say they've got more important things to do.” There are opposing worries, too. In 1998, a survey showed that Chinese schoolchildren were shorter than Japanese ones. The difference was greatest in poor rural areas, where Chinese aged 11 to 14 were 4cm shorter than similar Japanese. Its national pride wounded, the Chinese government decreed that schoolchildren should be issued with milk. But developing-country governments will have to pay attention soon, just as rich-country governments are trying to take action, because of the health consequences.

Being fat does not necessarily kill you, but it increases the risk that you will suffer from nasty diseases and die early. Women who are just overweight have a risk five times higher than the average of developing type-2 diabetes. Women who are severely obese (BMI, *see chart 3*,of 35 or over) have a risk more than 50 times higher. Obesity is implicated in cancer: a recent study in America showed that 14% of cancer deaths in men and 20% in women could be attributed to it. And being overweight is one of the main causes of heart disease, the world's biggest cause of death, above wars, malaria, AIDS or any of the other more spectacular killers.

The problem in developing countries is, in some ways, more troubling than that in the West. First, blacks and Asians are more susceptible to the diseases of obesity than are Caucasians. For instance, 3% of Chinese and 5.5% of Indians are diabetic, compared with 3% of (much fatter) Britons. There are more new cases of diabetes in China and India than there are in the rest of the world put together. Second, developing countries will have a harder time than western countries paying for the consequences of obesity. China is already spending 1.6% of its GDP a year treating non-communicable diseases (mostly obesity-related). That will rise.

As worries about obesity sharpen, so does the search for somebody to blame. Governments, newspapers and NGOs do not tend to accuse their voters, readers or members of being lazy slobs who should get off their sofas and stop stuffing their faces. Since consumers aren't expected to take responsibility, the finger of blame tends to point at producers.

AFP

Granny is being naughty again

This is a bit of a shock to the producers. It sits uncomfortably with their self-image. Many of them were founded by reformers or social visionaries: Britain's Cadburys were Quakers who thought chocolate a harmless alternative to alcohol; Dr John Harvey Kellogg was a passionate vegetarian; Henri Nestlé's mission was to find an artificial substitute for baby-milk for mothers who could not breast-feed. These companies all regard themselves as nurturers, who provide what consumers want.

The trouble is that consumers want contradictory things. They want to be healthy, but they also want their food to be tasty, cheap and convenient, all of which point in the opposite direction.

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Fatter than other animals

Dec 11th 2003
From The Economist print edition

The theory of the thrifty gene

IN EUROPE, if you want to eat at a railway station, there are usually a couple of dreary sandwich bars and a barrow of fruit if you are lucky. In America, in the food hall in New York's Grand Central Station, there are outlets selling Chinese, Italian (three), sushi, Indian, Kosher, German, children's food, and much more: some 30 food outlets, plus an auditorium with a kitchen on a stage, promising four days of culinary demonstrations. Why wouldn't you get fat in America?

Yet it is not obvious that getting fat is a natural response to plenty. Animals rarely get fat, even when food is abundant, unless they are old and domesticated. Young animals almost never get fat. Young people do all too frequently.

Humans have around ten times as many fat cells in relation to their body mass as most other animals. Polar bears are similarly off the curve, but then they have good reason to be fat: they need insulation and go for long periods without food. Pigs are well-padded, but they were bred for it.

Perhaps humans were bred for it too. That is what the thrifty-gene theory suggests. It was thought up by James Neel, a geneticist, in 1962, as he was seeking an explanation for the extreme porkiness of the Pima Indians. He postulated that they were fat because of the bad times their tribe had been through. They were minding their own business in Mexico and Arizona in the 19th century when incoming farmers disrupted their water supply. Some Pima starved and many were malnourished. Those who survived, suggested Neel, did so because they had some innate advantage—a thrifty gene that meant they were particularly good at storing energy. Their descendants inherited a trait that became a burden, not a benefit.

Andrew Prentice, professor of international nutrition at the London School of Hygiene and Tropical Medicine, reckons that the thrifty gene is widespread among the human race. He puts it down to agriculture. Hunter-gatherers, he argues, did not much need a thrifty gene. They may not have had the plenty that agriculture could provide, but they were few and their food supply flexible. However, after man settled down to farming around 12,000 years ago, the population grew, and soon lots of people depended on a small range of crops in a limited area. When the crops failed, disaster struck. And it did so often, and relatively recently, in Europe.

In 1321, some 20% of English people are reckoned to have died of famine. There was cannibalism in 1563 and 151 famines were recorded in England before 1620, the year the *Mayflower* sailed to America. American genes may be especially thrifty. Some immigrants were survivors of disasters such as the Irish potato famine. They also had to survive the crossing and the business of making a new life, which wiped out plenty of weaker stock. From 104 passengers on the *Mayflower*, only 23 left descendants. That was mostly because of crop failures and starvation, relief from which Americans still celebrate at Thanksgiving.

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Make it cheaper, and cheaper

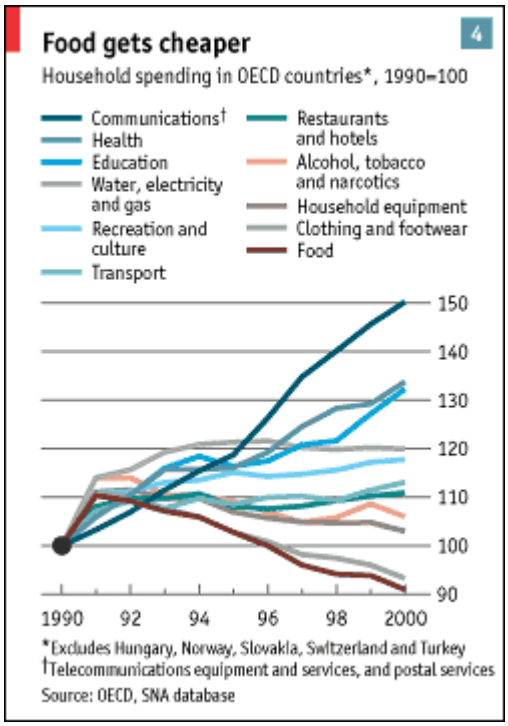
Dec 11th 2003
From The Economist print edition

How technology pushes down price

THE Treaty of Breda, signed in 1667 after a war between the English and Dutch in which the English were worsted, gave the Dutch the big prize: Run, a small island in the Indonesian archipelago which was the world's principal source of nutmeg. The margin on nutmeg at the time was around 3,200%. The English, as a consolation prize, got Manhattan.

As an illustration of the long-term fall in food prices compared with other goods, that is a sharp one. But deflation has characterised the food business for centuries, because of continual advances in food production and distribution technology.

Consumers have benefited greatly from those advances. Malthusians, whose descendants until quite recently predicted that the world would run out of food, have thereby been confounded. More and more food is being produced by fewer and fewer people with less and less capital; it is therefore ever more plentiful and cheaper. Since demand is to some extent limited by the size of people's stomachs, spending on food compared with other goods has been falling for many years, and continues to drop (see chart 4).



Genetically modified (GM) seeds are the latest manifestation of a production revolution that started with Charles “Turnip” Townsend, who in the 18th century laid the basis for crop rotation. Organic fertilisers were replaced by chemical ones in the 19th century. The railway opened up the American mid-west. The horse replaced the cow, the combine harvester the horse. After the second world war, dwarf varieties of wheat and rice (which overcame the problem that heavily fertilised crops in hot countries grew too tall and fell over) boosted developing-country output.

The “green revolution” helped trigger a more recent “livestock revolution”, documented by Chris Delgado, who works jointly for the International Food Policy Research Institute and the International Livestock Research Institute. Higher incomes and urbanisation, combined with falling food prices, have boosted meat and milk consumption in developing countries. By 1997, real beef prices were a third their level in 1971. Over that period, meat consumption in developing countries rose five-fold, three times as fast as in developed countries. Milk consumption rose three-fold.

By the 1980s, advances in conventional plant breeding had tailed off, but GM made it possible to do things with DNA that conventional breeding could not do. Despite scaremongering in Europe, GM technology is spreading elsewhere: most of the world's soya is now GM.

Producing lots of food is not much good unless you can distribute it, so advances in distribution technology have been as important as those in production technology. Salt, used to preserve food, which meant that it could be stored and traded, was an early aid to distribution. Canning arrived in the early 19th century, when a Frenchman discovered that food could be stored longer if it was heated before it was bottled, and a Briton worked out that tin cans were easier to transport than bottles; and both the British and the French armies used the technology to feed their troops in the Napoleonic wars.

Francis Bacon, a British scientist and essayist, was an early victim of the struggle to develop refrigeration

technology: he died in 1626 after eating some chicken that he had stuffed with snow as part of an experiment. In 1877 the first shipload of frozen beef was carried from Argentina to France. The impact on the food industry of the spread of the domestic refrigerator in the 20th century was rivalled only by that of the car, which changed the face of retailing by allowing supermarkets to develop.

Supermarkets have helped push down prices principally because of their scale. Big businesses can invest in IT systems that make them efficient. And their size allows them to buy in bulk. The more concentrated the retail business becomes, the bigger supermarkets get, the further prices get pushed down until, of course, there is so much concentration that there is not enough competition.

Britain's Competition Commission indicated earlier this year that the supermarket industry was moving towards that point: it refused to let any of the top three supermarket chains buy one of the smaller players. In America, however, where the size of the country means a more fragmented retail business, there is still scope for further concentration: the “black death”, as Wal-Mart is known in the trade, is expected to claim more victims.

Wal-Mart's scale, the efficiency of its IT systems and the cheapness of its non-unionised labour force ($8-10 an hour compared with $17-18 for mid-sized players such as Albertsons, Ahold, Safeway and Kroger), give it a massive advantage. It sells Colgate toothpaste for an average of 63% of its competitors' price, Tropicana orange juice for 58% and Kellogg's Corn Flakes for 56%. Analysts expect at least one of the mid-sized firms to disappear.

The concentration of power among retailers has led to another stage in the shift in power down the food chain. Once upon a time, power lay with landlords. In the 20th century, as processing and distribution became more important, so did the food producers. Lord Haskins, Tony Blair's adviser on farming, recalls going to food industry conferences in the 1970s, when there would be a line of Rolls-Royces outside, all belonging to producers.

No longer. Retailer concentration has shifted power (and profits) further down the food chain. But the retailers are not the type to swank around in flash cars. They are ostentatiously parsimonious, advertising their determination to keep prices down. Wal-Mart's headquarters in Bentonville, Arkansas, is in a converted warehouse. Tesco, Britain's biggest private-sector employer, has its headquarters in a Stalinist bunker in a nasty bit of north-east London. Beside the main reception its share price is proudly displayed on one of those blackboards with white plastic letters stuck on to it that you see in the cheapest sandwich bars.

Retailer concentration has shifted power (and profits) further down the food chain

One of the manifestations of retailers' power (which also reinforces it) is the growth of private-label (ie, supermarket- not producer-branded) goods. In 2002, according to the Boston Consulting Group, own-label made up 39% of grocery sales in Britain, 21% in France and only 16% in the United States, but everybody thinks that, as retailing becomes more concentrated, America is going the way of Britain. Retailers can sell private-label only if the price cuts they offer mean more to consumers than a producer's brand. As own-label has expanded, so supermarkets have been taking all but the most successful brands off their shelves. “If you are a must-have brand it's fine,” says Dido Harding, Tesco's commercial director. “If you're a sub-global brand, life's much harder.”

The shift in power to retailers has put pressure on producers' margins, hence huge programmes of cuts. Since 2000, Uni-lever has cut its workforce by 33,000 to 245,000 and dropped lots of minor brands as part of its “path to growth” strategy. Cadbury is the latest to announce big cuts: in October it said that it will be shutting 20% of its 133 factories and cutting 10% of its 55,000 global workforce. These cuts should help keep costs, and thus the price of food, low.

Does cheap food make people unhealthy? In some ways. Hydrogenated vegetable oil, for instance—vegetable fat made solid by adding hydrogen atoms—is the nutritionists' current *bête noire*. Widely used as a cheap substitute for butter and cream, it is the main dietary source of trans fats. Trans fats are heavily implicated in heart disease; companies are taking them out of products for fear of lawsuits.

Cheap food may also make people eat more. In a paper entitled “Why have Americans become more obese?” David Cutler, Jesse Shapiro and Edward Glaeser, a group of Harvard economists, note that, among OECD countries, obesity is correlated to the level of regulation: the more food laws, the more protected local producers are, the harder it is to import technology, the slimmer people tend to be. They reckon that is because of price: the less regulated a country, the cheaper a Big Mac tends to be. But it

could be another factor: heavily regulated countries might, for instance, be places with stronger family ties where real meals have survived and people eat fewer snacks and less fast food.

Food companies certainly think giving people more food for their money makes them buy more. That is why portions have been getting larger and larger. In America, soft drinks, which used to come in 8oz and then 12oz containers now come in 20oz ones. As Dennis Lombardi of Technomic, a food-industry consultancy in Chicago, points out, giving people bigger portions is an easy way of making them feel they have got a better deal. “If I can give you an 8oz portion for $7, I can give you a 12oz portion for $8. The only incremental cost to me is the food, which probably cost 25 cents.” Everybody, therefore, has done it.

Giving people bigger portions is an easy way of making them feel they have got a better deal

Scientists have shown that portion size partly determines how much people eat. Barbara Rolls, a nutrition professor at Pennsylvania State University, fed subjects macaroni cheese, some in 2.5-cup portions, some in 5-cup portions. The ones with the big portions ate 27% more, on average, than those with small portions but did not report feeling any fuller. Brian Wansink at the University of Illinois found that if you give movie-goers an extra-large bucket of popcorn, they eat nearly half as much again as if you give them the next size down, even if the popcorn is stale.

Now companies are under pressure to stop selling people more for less. But it is a hard trend to reverse, as Mr Lombardi points out. “How about I give you a third less food for $1 less? I don't think so.”

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Selling to the developing world

Dec 11th 2003
From The Economist print edition

It's tough but worth it

THE tricolore salad, made up of the colours of Italy's national flag, looks about as Italian as a dish can get. But two-thirds of its ingredients were not, originally, Italian. Tomatoes and avocados (whose name derives from the Aztec word for testicle, *ahuacatl*) were imported from the Americas during the "Colombian exchange", the shipping of species both ways across the Atlantic after the discovery of the Americas. Only the mozzarella originated in Italy.

The Colombian exchange was the world's biggest-ever movement of species, and had a commensurate impact on the food supply. The 20th and 21st centuries have seen the next-biggest exchange of food, as companies seek new sources of products and new markets to boost their flagging growth.

But the developing world can be tough. For a start, there's the foreign currency risk. Nestlé's chief executive, Peter Brabeck, points out that the company's volume of sales in Brazil (excluding water) rose by 10% in 1998-2002, but because of currency deterioration, revenues in Swiss francs were down by 30%.

Products must be adjusted to the peculiarities of national taste. Nestlé has around 100 different flavours of ice-cream in China, including red bean and some vile sesame-flavoured chocolate cubes that go down a treat in Beijing but wouldn't anywhere else in the world. Cadbury's Ron Pugsley said its researchers found that the Chinese don't like big bars of chocolate, because they regard sharing bars as unhygienic, so the company now produces more sizes, and smaller ones, than in the rich world.

In China, the minute a multinational comes up with a successful product, locals copy it. "This is the fastest and most competitive market in the world," says Josef Mueller, Nestlé's boss in China. "It's fascinating but it's brutal." Reaching the customer is more complex, because the retail business is still fragmented. Shops range from tiny kiosks to hypermarkets. In China, there are 4.7m outlets.

Sometimes companies misread things. Ira Kalish, global director of research at Deloitte, says Wal-Mart got it wrong originally in Brazil. The aisles in its supermarkets were too small because it hadn't noticed that shopping in Brazil was a family outing, so aisles needed to accommodate grandma and the children as well. The aisles were widened.

Some have struggled. Kraft sold its 85% stake in Beijing Kraft a couple of years ago. But Georges Desvaux of McKinsey in Beijing points out that while locals have taken over other sectors (such as television assembly) the foreigners seem to be doing pretty well in food. That, he reckons, is because making and selling food is more complex than television assembly, and the more complex a business, the greater the advantage the foreigners' management experience gives them. McKinsey reckons that, on average, foreign hypermarkets are making 3.3% operating profit, while locals are making 0.9%.

Some find breaking into China more comfortable than taking on new developed-world markets. While Carrefour failed in America and Wal-Mart is struggling in Germany, both companies are doing well in China. Some are expanding exceedingly fast. McDonald's has around 560 restaurants in China and is opening around 100 new ones a year; KFC, which has nearly 1,000, is opening a breathtaking 200 a year. "Growth in China is up to your imagination," says Nestlé's Mr Mueller. "The challenge is to make it profitable and sustainable." He says that Nestlé's China operation, which started with a sales office in 1908 and re-started in 1979, has been profitable for five years.

It has been a long haul for many; but McKinsey's Mr Desvaux reckons that most of the big food companies' China operations are making money. David Deno, chief financial officer of Yum! Brands, KFC's parent company, says that Yum!'s operations in China (mostly KFC) made more money in the third quarter of this year than did KFC in America.

As for the Chinese, they seem to like the foreigners' presence. Huang Shengming, secretary-general of the China National Food Industry Association, says that Chinese people associate foreign brands with quality, and that foreign management practices have sharpened up local companies. And food companies don't meet the disapproval in China that they do in the West: according to the Pew Research Centre, while 72% of Chinese think that fast food has made the world a better place, only 23% of Americans do.

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The feel good factor

Dec 11th 2003
From The Economist print edition

Tasty food is sugary, fatty and salty

Magnum

Molecules are great

DURING the 1990s, the only group of people anywhere in the world known to have got thinner, other than famine victims, were rich Brazilian women in cities. What is odd is not that the Brazilian ladies managed to curb their appetites, but that no other group succumbed to the combination of government advice and media and peer pressure to get slim.

What is the problem with eating less fattening stuff? Partly, it is taste. Liking for sugar is instinctive. Newborn babies can be seen to react pleasurably to it. Fat's appeal is not that it tastes nice but that it is crucial to other tastes. That is one reason why the low-fat fad of the 1990s faded. Many flavours are released by fat. Low-fat, low-taste. Fat also has large round molecules, which feel smooth on the tongue. The fat in ice-cream keeps the crystals small and stabilises it: without fat, it tends to be gritty and melt too fast.

Food technologists have had to invent ways to get proteins and polysaccharides to mimic the behaviour of fat molecules. They have done so with only limited success; and what they failed to do, as Werner Bauer, Nestlé's head of production and research and development, admits, was to replicate that nice full feeling you get from eating something fatty. “When you eat no-fat products, the satiety is not the same.”

But there may be something deeper to people's liking for fat and sugar than molecules titillating the tongue. There have been plenty of studies of the effect of food on mood; and though not all of them point in the same direction, they tend to suggest that sugars and fat make people feel and behave better.

Food high in carbohydrates (crisps, chips, sweets) alters the availability of tryptophan, an amino acid involved with serotonin, which regulates mood. People who are already gloomy seem particularly susceptible. That may help explain why premenstrual women have a tendency to overdo the chocolate, and why people often get fat when giving up smoking.

Several studies have suggested a link between fatty foods (crisps, chips, hamburgers, fried chicken) and mood. One, of people put on cholesterol-lowering drugs and diets, suggested that although lowering cholesterol cut deaths from heart disease, it increased deaths from suicides, accidents and fights. Women with low cholesterol levels who had just given birth were more susceptible to depression than those with normal or high levels. Monkeys fed high-fat diets to study the effect on heart disease became more sociable and groomed each other more often.

Fish oils (aka omega-3 long-chain polyunsaturated fatty acids, available from mackerel, salmon or cod liver) seem to have a particular effect on mood and behaviour, several studies have suggested. Depressed people with high omega-3 levels became less gloomy. University finals students were, perhaps surprisingly, less aggressive if they had been fed fish oil for three months. Manic depressives on fish oil felt better, too. Violent offences among young British prisoners fed fish oil fell by 40%. Some scientists suggest that the apparent rise in depression over the past century is not the result of people's greater willingness to admit to feeling bad, but is a real phenomenon connected to the fall in oily fish consumption.

Fish oil is not unhealthy. Rather the opposite. Omega-3 seems to help prevent heart disease. High fish-oil consumption among the Inuit may explain why, although they have fatty diets, heart disease rates are low. Unfortunately, fish oil does not taste very nice, so people don't want to eat a lot of it, and instead gorge themselves on chocolate, chips and hamburgers.

It is not clear why people like salt so much. They need some, but not as much as they eat now. Although consumption levels have fallen sharply since the days when food was commonly preserved in salt (and people keeled over regularly from apoplexy, as strokes were called) it has risen by 20% over the past ten years, and is now nearly twice recommended levels. Through strokes and heart disease, salt is implicated in 35,000 British deaths a year.

Britain's Food Standards Agency says companies should be cutting down on salt; and manufacturers have said they will try. Salt levels in bread have come down over the past three years. But companies trying to reduce the salt content of food have a problem similar to that in lowering fat levels. Salt is very handy. It is cheap and retains water, so it is a low-cost way of giving products both taste and bulk. Companies say people turn away from products if they take it out.

That is one of the problems with changing people's diets. Taste is instinct, but it is also habit. Once people are used to fatty, sugary and salty foods, they find it hard to give them up.

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Make it convenient

Dec 11th 2003
From The Economist print edition

That tends not to mean healthy

Magnum

And no washing-up

WHEN Rome was at its peak, many of its citizens lived in *insulae*—apartment blocks without kitchens—and bought food ready-cooked from stalls. In those days, the cost of fuel made cooking for many more efficient than cooking for a few. These days it is the cost of labour that is driving people out to buy fast food: they do not have the time to cook because they are using their labour to earn money.

The proportion of women going out to work is probably the main force pushing the time-saving trend. Britain and America are around the top of both the convenience-food league and the working-woman league. Continental Europe lags behind in both, though that may be more because of seriousness about food than because women are leisured.

Convenience food takes labour out of the home and puts it in the food industry. That's fine by the food industry. Mark Price, marketing director of Waitrose, Britain's top-of-the-range supermarket, says that the company's biggest item in meals at its Canary Wharf (London) branch (hurried customers in financial services) is the ready-mixed Caesar salad in a box. It costs £1 ($1.70) less if you buy all the ingredients and mix them yourself; but people can't be bothered.

Convenience takes different forms in Britain and America. In America, where the service economy is better developed, people buy food more in restaurants and takeaways, and eat it in their cars, homes or offices. “America's favourite dining room”, says Technomic's Dennis Lombardi, “has a gas pedal and a steering wheel.” Supermarkets have tried to hit back, serving hot meals and cold take-outs to hungry commuters. Producers, too, are working at satisfying the demand for convenience. “Hand-held is really hot these days,” says Michael Silverstein, head of the Boston Consulting Group's retail practice. That means things like Hot Pockets, palm-sized wraps with fillings that allow impatient Americans to dispense even with plates and chairs. Last year Nestlé paid an eyebrow-raising $2.6 billion for Chef America, the company that makes them.

Ready meals from supermarkets are the main result of the drive to convenience in Britain. Ten years ago, the sector barely existed; now it is worth £1.5 billion and is growing at 6% a year. These days, Tesco launches 1,200 new convenience products a year. Variety boosts consumption.

Convenience is taking over supermarkets' fresh produce departments. Bagged salad hardly existed five years ago. Now Tesco sells £150m ($205m) worth a year. The basic lettuce has gone: these days it is washed and mixed with herbs, croutons and brightly-coloured leaves to jolly it up. “Lettuce”, says Stan Burns, Tesco's category manager for vegetables and salad, “was a slow-growing business. We've brought

some excitement to it."

Adding labour increases sales of boring products. Once upon a time, carrots were carrots. Now they are diced, chopped, shredded or peeled into nice little rounded sticks for children's snacks. Each process allows the supermarket to charge more.

Some companies think there is a market for fairly-convenient food. Leaping Salmon, a British company, sells bags with the ingredients and instructions for really quite complicated meals (banana leaves, coconut milk, ginger, halibut) for people who would like to do a bit of cooking but don't know how. The service is said to be popular with men who want to look as though they are trying.

Convenience food helps companies by creating growth; but what is its effect on people? Disastrous, according to Felipe Fernandez-Armesto, an historian at Queen Mary, University of London. "For people who think cooking was the foundation of civilisation, the microwave...is the last enemy...The communion of eating together is easily broken by a device that liberates household denizens from waiting for mealtimes...The first great revolution in the history of food is in danger of being undone. The companionship of the camp fire, cooking pot and common table, which have helped to bond humans in collaborative living for at least 150,000 years, could be shattered."

Meals have certainly suffered from the rise of convenience food. The only meals regularly taken together in Britain these days are at the weekend, among rich families struggling to retain something of the old symbol of togetherness. Indeed, the day's first meal has all but disappeared. In the 20th century the leisurely carnivorous British breakfast was undermined by the cornflake; in the 21st breakfast is vanishing altogether, a victim of the quick cup of coffee in Starbucks and the cereal bar.

Convenience food has also made people forget how to cook. One of the apparent paradoxes of modern food is that, while the amount of time spent cooking meals in Britain has fallen from 60 minutes a day in 1980 to 13 minutes a day in 2002, according to Taylor Nelson Sofres, a consultancy, the number of books and television programmes on cooking has multiplied. But perhaps this isn't a paradox. Maybe it is because people can't cook any more, so they need to be told how to do it. Or maybe it is because people buy books about hobbies—golf, yachting—not about chores. Cooking has ceased to be a chore and has become a hobby.

Although everybody lives in the kitchen, its facilities are increasingly for display rather than for use. Mr Silverstein's new book, "Trading Up", looks at mid-range consumers' willingness to splash out. He says that industrial-style Viking cooktops, with nearly twice the heat output of other ranges, have helped to propel the "kitchen as theatre" trend in home goods. They cost from $1,000 to $9,000. Some 75% of them are never used.

Cooking has ceased to be a chore and has become a hobby

Convenience also has an impact on the healthiness, or otherwise, of food. Of course, there is nothing intrinsically bad about ready-to-eat food. You don't get much healthier than an apple, and all supermarkets sell a better-for-you range of ready-meals. But there is a limit to the number of apples people want to eat; and these days it is easier for people to eat the kind of food that makes them fat.

The three Harvard economists in their paper "Why have Americans become more obese?" point out that, in the past, if people wanted to eat fatty hot food, they had to cook it. That took time and energy—a good chip needs frying twice, once to cook the potato and once to get it crispy—which discouraged consumption of that sort of food. Mass preparation of food took away that constraint. Nobody has to cut and double-cook their own fries these days. Who has the time?

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Fancy that, healthy ketchup

Dec 11th 2003
From The Economist print edition

Food as medicine

Rex

Health products, early models

YAKULT is one of the miracles of modern marketing. Minoru Shirota, a Japanese researcher, discovered *Lactobacillus casei Shirota* in 1930. The company was founded in 1955, but until 1994, when the product was launched in Europe, people in the West were blissfully unaware that they should be drinking Yakult to "support the work of beneficial bacteria already in the gut". Yet this bland, sweet, yellowish drink in funny-shaped bottles has spread across the world like warm butter over the past decade. It is now a $2 billion global business, and several big food companies have brought out competing products.

Why is it suddenly possible to sell people strange medicinal-looking things they never knew they needed? "It's the baby-boomers coming to terms with their mortality," says Bob Parmalee, president of food system design at Cargill, an American food company. That is why a company whose core business is commodities employs 200 food scientists, up from 20 three years ago. Cargill has developed many products with odd-sounding new ingredients, including Bone Appetit, a raspberry tea with soy isoflavones, which "may help promote bone health and may help relieve some of the symptoms of menopause", and comes in small pink cans designed for the mature lady's handbag.

There's nothing new about health food. People have been trying to eat their way to eternal life for millennia. Health fads come and go, just as hemlines rise and fall. In 1985 people gave up caffeine; in 1987, salt; in 1994, fat. Now it's carbohydrates. "You can't move for low carbs," says Harry Balzer, a vice-president of NPD, a consultancy. "But we haven't had a low for a decade. We were due one." He is against taking this too seriously. All those previous fads faded. "Don't underestimate America's willingness to try new things. But don't think it's a trend. It's just us being us."

But today's health consciousness may have stronger foundations. As Mr Parmalee points out, it has a solid base in demographics. There were 230m over-65s in the world in 1975, 420m in 2000, and there will be 830m in 2025. And as the world gets older, so its willingness to spend money on staying healthy grows.

There is also more science about what is good for people. Julian Mellentin of New Nutrition Business, a consultancy, points out that in 1996 there were 120 papers on nutrition science in peer-reviewed journals. In 2002, there were over 1,000. Partly because there is more science, regulators (in America at least) are more willing to allow health claims on products; and health claims increase sales.

The Atkins diet, which has boosted sales of eggs and meat and hit potatoes, is one manifestation of consumers' determination to watch what they eat. The even-hotter new thing in America (bizarrely to the British, who regard it as uniquely unglamorous) is WeightWatchers, which apparently benefits from the efforts of one of Britain's second-hand royals, Sarah Ferguson, to promote it.

Supermarkets all cater to this market. Waitrose's Perfectly Balanced meals promise no more than 4% fat, very little salt, and no "butylated hydroxanisole or hydroxytoluene" at all. Sales, says Waitrose's Mark Price, are growing at 20-25% a year.

Food intolerance is booming. Everybody has an interesting food problem these days; but that may have more to do with fashion than science. According to the British Nutrition Foundation, 20% of Britain thinks it is allergic to or intolerant of some food; 1.4% actually is. Never mind. People will pay to indulge their

fancies. Tesco's Free From range, for instance, offers 100 gluten- and lactose-free products: a 500-gram loaf of gluten-free brown bread is £2.49 ($4.20); a standard 800-gram brown loaf is 55p. According to Mintel, a market-research group, sales of such products have risen by 165% since 2000.

Sales of nutritional supplements more than doubled in America in the six years after the Food and Drug Administration (FDA) liberalised labelling laws. In 2000, sales stood at $17 billion and were growing at 10% a year. Not that people have much idea what many of these products do to their bodies: at least they sound healthy.

Organics (see article) are no longer confined to roughage and knobbly carrots. Green & Black's organic chocolate has swept Britain. Because it is good chocolate, people like it; because it is organic, they feel good about buying it. So Green & Black's can charge £1.15 for a 100-gram bar (compared with 98p for Lindt and 83p for a 125-gram bar of Cadbury's Dairy Milk). Sales have gone from £3m to £20m in four years, and Green & Black's has moved from health-food stores to supermarkets.

The health trend has provided new ways to flog old products. Heinz has been trumpeting the benefits of lycopene, which research suggests reduces the risk of cancer and heart disease. Tomato ketchup, fortuitously, turns out to be one of the main sources of this virtuous ingredient. Orange juice can help reduce the risk of a stroke, as PepsiCo is keen to point out to consumers of its Tropicana brand.

Some of the innovation is more substantial. Nestlé, which has a Swiss enthusiasm for this sort of thing, spends 1.35% of sales on research and development—a lot, for a food company. “We are moving from an agrifood business to an R&D-driven nutrition, health and wellness company,” says Luis Cantarell, head of the company's nutrition division. Nestlé's scientists explore the far frontiers of nutrition research—identifying 1,000-1,500 different compounds in urine, for instance, to determine just what people should and should not be eating—as well as developing products such as milk with added long-chain polyunsaturated fatty acids and non-dairy products fortified with calcium for the lactose-intolerant. None of it looks particularly appetising; but, as Yakult has shown, this stuff sells mysteriously well these days.

Companies whose products give them a disadvantage in the health business are trying to adjust. PepsiCo says it has taken all the trans fats out of its Frito-Lay snacks. Kraft and Cadbury Schweppes say they are removing some. Cadbury's portfolio is changing. Five years ago, as Todd Stitzer, its chief executive, points out, it was 80% chocolate; now it is 55% chocolate. The rest is other sweets and gum, which may not sound astonishingly healthy, but at least you can take the sugar out of those products and put in breath-freshening virtues.

Few fast-food companies are well-placed to benefit from the health trend. Subway, a sandwich chain, has, thanks to Jared Fogle. Mr Fogle is a young man who reduced his 60in waist down to 34in by eating nothing but Subway sandwiches for a year. It sounds improbable; but he was very large, the sandwiches were not, and he ate them without mayonnaise. Subway employed Mr Fogle to describe his transformation on television, and its sales boomed for three years.

Until McDonald's got into the health business. Subway's growth has slowed since the chain regarded as the epitome of bad eating started making concessions to the growing health-consciousness of American adults. McDonald's menus now feature salads and fruit. That has helped placate mothers who used to sit hungrily watching their children pack away the burgers, wishing there were anything on the menu they could bear to eat, and is reckoned in part to be responsible for a recent rise in McDonald's fortunes.

KFC is still struggling. “It's really hard to eat fried chicken and persuade yourself that it's better for you,” says Technomic's Dennis Lombardi. Jonathan Blum, a vice-president at Yum! Brands, KFC's parent, explains that it is a question of KFC's “relevance” to the American market. “We're testing bold new ways to feature our core fried chicken...I'm getting hungry just thinking about it,” he says valiantly.

Selling unhealthy products may be difficult these days, but selling health can be tough, too, as McDonald's discovered in the early 1990s, with the McLean Deluxe low-fat burger. It bombed, and was taken off the menu. Innovation can also be hard. Procter & Gamble spent 30 years developing Olestra, a fat which the digestive system cannot absorb: non-fat fat. But the product has been dogged by stories of a nasty oily discharge; by claims that it inhibits the absorption of vitamins and nutrients that may help prevent cancer; by a hostile lobby group, the Centre for Science in the Public Interest; and by regulatory problems. In 1996, after eight years of tests, the FDA allowed it to be used as an ingredient, but products made with it had to carry the warning that it might cause gastrointestinal distress. This summer, the FDA changed its mind and allowed the warning to be taken off advertisements. But Procter & Gamble's competitors do not envy it its experience with Olestra.

Still, the health business has broadly benefited companies. It may have done consumers some good, too: Americans may be getting thinner. America is ahead of the curve on dietary matters: it got fat before everybody else did. The latest data from NPD, which collects information on 600,000 Americans' eating habits, suggest that America got just a little slimmer this year compared with last (see chart 6).

NPD's Mr Balzer warns against putting too much weight, as it were, on these figures. Americans have been patronising restaurants less in the past three years, which may explain their weight loss. That may have happened as much because of the economic slowdown—restaurant meals cost $5 on average, compared with $2 for a home-cooked meal—as because America is on a collective diet. But it is also possible that something has changed. It had to some time. America couldn't just go on eating till it popped.

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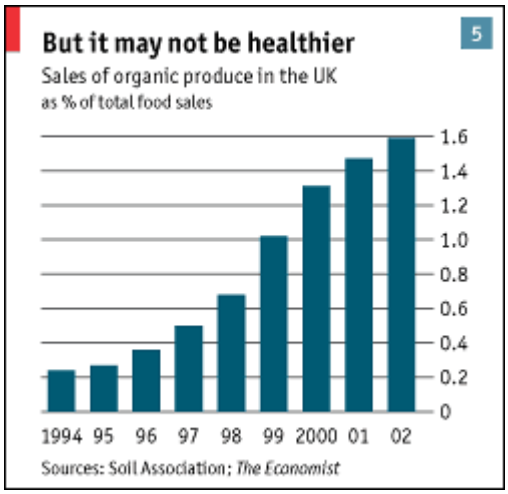
Organic? Don't panic

Dec 11th 2003
From The Economist print edition

What the birds and bees say



"WHEN I was invited to an organic conference," says Marion Nestle, a nutritionist (unrelated to the Swiss multinational), "I thought there would be a lot of farmers in birkenstocks. Instead I found I was sharing the platform with General Mills." The American food giant's purchase in 2000 of Small Planet Foods, an organic company, signalled the coming of age of organic food. In Britain, where the movement has aristocratic patrons such as Prince Charles, sales hit £1 billion ($1.7 billion) in November.

Consumers' worries about conventional food's effect on their health and the environment are helping organic sales, yet those worries may not be well founded. Pesticide residues, for instance, particularly concern people, yet there is no evidence that current levels in fruits and vegetables are dangerous. According to Sir John Krebs, head of Britain's Food Standards Agency, "a single cup of coffee contains natural carcinogens equal to at least a year's worth of carcinogenic synthetic pesticides in the diet."

Nor are consumers clear about what they are getting in organic foods. People commonly believe that organic farmers do not use pesticides. That is wrong. Governments (which regulate organics) and licensing agencies (which license organic farmers) permit the use of a range of pesticides which are chemically inorganic and industrially produced but qualify because they are naturally occurring.

These pesticides are old conventional technology. Copper sulphate, for instance, known as Bordeaux mixture, was invented in the 19th century for vineyards, and widely used until 1930. More modern, more effective chemicals can be used in smaller quantities and are less persistent, so they disappear after a couple of weeks, while heavy metals hang around. The Soil Association permits the use of such pesticides, but, says the organisation's policy director, Lord Melchett, "it should not be allowed. We're quite open about the fact that we want to phase it out." But farmers, who use such pesticides to control, for instance, potato blight, are reluctant to give them up.

Several studies have compared the taste of organic food to that of conventional food, but have failed to establish that either is better. Nor is there evidence that organic food is healthier. According to Sir John , "the current scientific evidence does not show that organic food is any safer or more nutritious than conventionally produced food."

Organic farming scores better on biodiversity and soil composition, according to a review of studies comparing conventional and organic farming by Britain's farming ministry. Curiously, though, the review includes evidence from the Soil Association, which licenses organic farmers and promotes organic food; it is rather like asking Tesco if supermarkets are good for the nation.

A review of the literature by Tony Trewavas, professor of plant biochemistry at Edinburgh University, is more equivocal. Organic farms had more beetles and butterflies, but conventional farms had more species of beetle. A study measuring 13 bird species over nine years found slightly higher levels intermittently in organic fields, though no significant difference in the end. In a study comparing 22 organic farms with nearby conventional ones, birds did better on organic farms in 50 out of 68 cases, though the numbers were significant for only two species.

Bigger environmental gains have been observed in no-till agriculture. No-till, practised more in America than in Britain, means growing crops without ploughing fields, and leads to many-fold increases in bird

population and a range of other environmental benefits. But no-till farming works best with GM herbicide-resistant varieties to keep weed populations down, an idea that doesn't go down well with most of the organic movement.

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In search of the good

Dec 11th 2003
From The Economist print edition

But even that can make you fat

Anthony Blake

Revolutionary bangers

THE industrialisation of the food industry was not kind to the British banger. Sausages were always designed to use up the bits of the animal that were not good enough to be sold as joints, but technology allowed food companies to extract every last drop of digestible material from each carcass.

Cheap sausages have for years been made largely of fat, re-hydrolised “drind”—dried pig rind, which expands when water is added to it—and meat mechanically recovered by a machine that crushes carcasses after most of the muscle has been removed, squeezes them through a sort of sieve and extracts a pulp. The rest is mostly rusk, which gives texture and holds water, with a bit of sugar for browning the outside and a lot of salt to make it taste of anything. The result is a limp, fatty, pink cylinder, about as unhealthy as a food can be.

But the market and the government are conspiring to kill the cheap sausage. New regulations introduced after BSE required producers to remove “specified risk material”—the bits in and around the bones—and since the beginning of this year labelling rules have tightened further. Now the minimum meat content (42% for “pork sausages”, 32% for “sausages made from pork”) may not include mechanically recovered meat or connective tissue. Meat must be muscle. Those other ingredients may still be used, but must be specified on the label.

Consumers are anyway spurning cheap sausages. “There's been a mini-revolution in sausages,” says Tesco's fresh-produce director, Steve Murrells. All the growth is in the top-of-the-range sausages. Tesco's Finest range now outsells its economy version. Even Prince Charles has got into the business, with his Duchy Original sausages, which sell for £2.69 ($4.60) for a 400-gram pack, compared with only 50p for the same weight of economy sausages.

Expensive sausages are very different from the economy version. Bernard Hoggarth, managing director of Cranswick Country Foods, which makes top-of-the-range sausages for others (Sainsbury's Taste the Difference, Prince Charles's Duchy Original brand, the Co-op's Irresistible) says that his sausages contain only prime shoulder and belly cuts that a butcher would happily sell. There is very little rusk in any of them; none in some. Cranswick's pigs, which the firm rears itself, frolic free-range around the Yorkshire wolds. Its herbs are delivered fresh every day, from North Yorkshire in summer and from Israel and Spain in the winter. For the Toulouse sausage, Cranswick uses red wine, not essence, and whole cloves of garlic.

Ten years ago, says Mr Hoggarth, there was no market for this sort of product. Why have things changed? “People are more prosperous,” he says. “They have had good food abroad, and they eat out a lot. They get bespoke sausages in restaurants, and they are prepared to pay a little more to get the same at home.” Cranswick has done well out of today's more discriminating consumer, with a 35% year-on-year average growth in sausage sales since it went into the business eight years ago: a remarkable rate in the slow-growing food industry.

Supply, as well as demand, has helped improve the quality of food. Globalisation allows supermarkets to sell more, and more various, fresh stuff than ever before (in Europe at least: America satisfies most of its own needs).

Supply, as well as demand, has helped improve

the quality of food

“Everybody talks about exotics,” says Steve Maxwell of Worldwide Fruit, peering at something spiky from Mexico. “Nobody actually buys them.” It is the year-round availability of commoner stuff that's the big difference. The Gala apple, for instance, which has replaced the Golden Delicious as Britain's favourite, is now available 52 weeks of the year. From September to February it comes from Britain and other European countries; in February and March, from South Africa; in April, from Chile; from May to July, from New Zealand; in August, from Spain.

These days berries are driving the fruit business. Strawberries and raspberries, which used to be available only in high summer, now spread through spring and autumn because they are grown in and shipped from hot countries. Demand creates supply, and supply creates demand: the more various the fruit available, the more people eat it.

Because people want more fresh produce, they go shopping more often. Mark Price, marketing director of Waitrose, a British supermarket, says people used to shop once a week, filling the car up with frozen stuff. These days, they shop two or three times a week, and Waitrose's freezer compartments are shrinking fast.

In America, Whole Foods, a smallish but remarkably successful supermarket, illustrates the demand for quality. It sells itself as the world's largest retailer of organic food, and wears its politics on its sleeve. A “Take Action” corner, along with lots of fair-trade products and anti-capitalist magazines, advertises the shop's stance, but that's not the main reason why people like the place.

“Whole Foods understands the theatre of food,” explains Deloitte's Ira Kalish. Its managers have seen how beautiful vegetables can be: carrots are laid in neat orange rows, alternating with the greeny-white of spring onions. Apples are piled green-red, green-red. Produce, stacked in earthenware, wood or wicker, looks cared for. The huge cheese counter at a Whole Foods in Minneapolis, with its vast blocks of parmesan, is truly aspirational. Why not try, for instance, a little Bianco Sottobosco, “a mixture of goat and cow's milk with black Alba truffles? Eat with full-bodied red or champagne.” Interestingly, Whole Foods is not, principally, an east- or west-coast chain. Its shops are mostly in fly-over country, once thought to be the heartland of bad food.

Among America's restaurant chains, the desire for something a bit better is most evident in the shift away from lowest-common-denominator quick-service restaurants (McDonald's, KFC) to fast-casual places that satisfy a customer's modern determination to be in and out as quickly as possible, but with better food. Panera Bread, for instance, which sells classy Italian sandwiches on various types of good bread, saw its sales increase 43% in 2002 compared with 2001, while McDonald's were up 1.3% in the same period (though they have recovered since). Fast-casual's speedy growth rates are why McDonald's bought slices of three of them, Chipotle, Boston Market and Pret à Manger.

Is good food good for you? Not necessarily. You can get fat just as easily on Bianco Sottobosco and Green & Black's chocolate as you can on KFC. But it tends to be a bit better than bad food, because it tends to be fresh, and fresh is good for you; and because it tends not to have the cheap and nasty ingredients such as hydrogenated vegetable oil. Anyway, who cares? Good food is good.

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Outflanking the enemy

Dec 11th 2003
From The Economist print edition

Can governments make people thin?

Alamy

Taxman's temptation

IN 1202, King John of England proclaimed the first food law, the Assize of Bread, which prohibited its adulteration with ground peas. Food has long been regulated because, says the Harvard Business School's Ray Goldberg, it is a “quasi-public utility”: people think it is the government's job to provide a safe and stable supply.

In the United States, where around 5,000 people a year die of food poisoning, compared with 600 in Britain, food safety was the hot regulatory issue in the 1990s. Incidents such as the deaths of four American children in 1993 who ate contaminated hamburgers at Jack in the Box restaurants helped keep it in the headlines. Eric Schlosser's “Fast Food Nation” raised awareness of the issue, too, by explaining in gruesome detail how much faecal matter there is in hamburgers and how consolidation of the food industry has helped to spread disease (the larger abattoirs and factories are, the wider contaminated material can spread).

America has now adopted more rigorous European-style inspection systems, and the incidence of food poisoning is falling. That's partly why food safety has declined in importance as an issue. The other reason is that obesity has loomed larger as a public health issue which rivals smoking in importance.

A combination of government campaigns to educate people, tax and restrictions on tobacco companies has cut smoking in the rich world. Telling people to eat better seems to have had little effect so far—though the figures on American weight loss suggest that may be changing. But even if people are beginning to hear the message on obesity, the change is likely to be too slow to ward off the same combination of lawsuits and regulation that hurt the tobacco companies.

Some of the food companies are more vulnerable to lawyers and governments than others. An analysts' report from J.P. Morgan in April this year named big companies most likely to suffer (Hershey, Cadbury, Coca-Cola, PepsiCo) and those least likely (Danone, Nestlé, Unilever).

Moves towards healthier products—taking out trans fats, adding salads—are reckoned to be aimed as much at lawyers, regulators and stockmarket analysts as at consumers. Many companies have recently appointed advisory boards of top nutritionists—just the people who have been complaining about them in the press of late. Cynics wonder whether that is designed as much to silence them as to benefit from their wisdom.

For the moment, the threat from lawyers is in abeyance. A case brought against McDonald's by two fat teenagers was dismissed for the second time in September. But the food companies' tormentors won a marginal victory when Kraft was sued because of the trans fat content of its Oreo cookies; Kraft promised to reduce the content; the suit was dropped. And nobody is confident that the threat has gone away. The tobacco parallel looks too close—particularly, no doubt, to Kraft, which used to be owned by Philip Morris.

And the likelihood of more regulation looms, as governments' worries about the health consequences of diets sharpen. But not all regulatory activity will harm companies. For instance, in order to inform consumers better about what's healthy, America's Food and Drug Administration (FDA) is making use of companies' desire to boast of their products' health benefits. It has liberalised the rules on making health claims, and is adopting a four-tier system telling consumers how good the science is behind any particular health claim. Calcium's ability to protect against osteoporosis, for instance, is reckoned very

solid; omega-3's ability to ward off heart disease is reckoned pretty good, but second-level. Shakier claims will have to be advertised as such. The aim, says Mark McClellan, head of the FDA, is to “help consumers through the science”. Companies like that. Consumers should, too.

Companies find other aspects of regulatory activism less appealing. Earlier this year the FDA announced that from 2006 consumers must be informed of the levels of trans fats in food. Trans fats have had so much publicity in America that such information is bound to turn consumers off the products that include them. This announcement—the first time in a decade that the government had forced companies to put new information on labels—came with an uncharacteristic warning from a business-friendly administration. “This is the beginning of a lot more rules and regulations,” said Tommy Thompson, America's health secretary.

In Europe, David Byrne, the European Union's health and consumer protection commissioner, has proposed dividing food into good and bad: health claims could be made only for good food and not for bad (fatty, sugary and salty) food. “This prevents them from being marketed as ‘good food', which they are not,” says Mr Byrne. To which Nestlé's Peter Brabeck quotes Paracelsus, a 16th-century pharmacologist: “All things are poisonous and nothing is without poison. It is only the dose that makes things poisonous.”

Mr Byrne's idea risks curbing innovation. Companies are less likely to invest in finding out what's good for consumers if the regulators restrict their ability to use that knowledge. European consumers would not benefit from such restrictions. They would, however, benefit from better information. American labels are more useful than European ones. They reveal what proportion of the recommended daily intake of, say, salt is included in, say, a can of tomato juice (80%, as it happens, in the brew served on American Airlines planes). They are getting better still, with the trans fat addition. Europe should adopt similar rules. That would probably hurt some companies. Never mind.

Companies are less likely to invest in finding out what's good for consumers if the regulators restrict their ability to use that knowledge

There are also moves afoot to restrict companies' ability to sell to children. Those who support such moves argue that once people are fat, it is hard for them to get thin; and tastes are established early. Banning advertising to children probably wouldn't make much difference—Sweden has never allowed it, and its offspring are as porky as those in neighbouring countries. Kicking vending machines out of schools (see article) might.

The touchiest subject of all is a “fat tax”. At present, thin people subsidise fat people. According to a study by America's Centres for Disease Control and RTI International, a consultancy, obese people cost Medicare an extra $1,486 each, Medicaid an extra $864 each and private insurers an extra $423 each. So, the argument goes, just as governments tax cigarettes both to discourage smoking and to pay for its consequences, they should tax the things that make people fat.

Supporters of a “fat tax”, such as Tim Lang at Britain's City University and Michael Jacobson at America's Centre for Science in the Public Interest, are regarded as extremists by the food industry. But fat is already taxed, albeit in a small way. According to an article in the *American Journal of Public Health* in 2000, 19 states and cities in America, including New York and California, levy special taxes on snack foods, sweets or soft drinks. Australia's “general sales tax”, introduced a couple of years ago, is levied on snacks and convenience foods, but not on groceries. The fat tax is already here, and is likely to grow.

Mr Thompson wants the private sector, not the state, to use the price mechanism to discourage fatness. At present, America's health insurers don't charge fat people more because they fear lawsuits. Mr Thompson is arguing for them to “give people credits on their health insurance costs for being healthier”—to charge fat people more for their insurance, in other words. America's discrimination laws might have to change to allow them to do that. Given the size of America's waistline, getting public approval for the move might prove to be difficult.

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How sugar gets into schools

Dec 11th 2003
From The Economist print edition

Battle of the vending machines

SUSAN COMBS, agriculture commissioner for Texas, is an elected official, a Republican, 6ft 2in and, as a former state prosecutor, used to a fight. This summer she won a noisy battle against soft-drinks companies. Ms Combs's gripe was vending machines in schools which, she thought, were fattening Texan children and setting them up for a life of unhealthy eating and drinking. Last year, she worked with Eddie Lucio and Jaime Capelo, a senator and a representative in the state legislature, on a bill to ban “foods of minimal nutritional value” (soft drinks and hard candy) from schools.

Mr Lucio and Mr Capelo were particularly interested in the issue because their constituencies are Hispanic, and Hispanics and blacks are getting even fatter than whites. “I thought everybody would agree with me,” says Ms Combs. “Was I naive? We got outlobbied, outdone, outmanoeuvred. The bill was killed on the floor.” Soft-drinks lobbyists were supported by the superintendents of the school districts, because the soft-drinks companies pay for being allowed to put vending machines in schools.

Ms Combs was curious to find out just how much is paid, so she filed 1,256 requests for records to be opened under the Freedom of Information Act. She discovered that around 60% of the districts had contracts with Coca-Cola, 15% with Pepsi, 14% with Dr Pepper and 8% with other companies. The total revenue from these contracts was $54m for 3.75m pupils. Schools were also getting scholarships, software, sports equipment and more.

The contracts were designed to get schools to sell as much soft drink as possible. Coca-Cola's contract with Austin school district, for instance, specified that 90% of vending machines should sell 20oz bottles (the biggest size available). Vending machines sold milk and water as well as sodas; but for every case of soda a school sold, it got $6.24, and for every case of water or milk, $1.80.

Though defeated by the legislature, Ms Combs had a powerful ally in the governor, Rick Perry. He transferred school food policy from education to agriculture. Armed with new powers, Ms Combs has banned “foods of minimal nutritional value” from elementary schools (up to 11) and at meal times in middle school. This sort of thing is happening elsewhere too. Several school districts in California, Wisconsin and Tennessee, for instance, have turned down contracts with soft-drinks companies. School vending machine contracts may be on their way out.

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With special thanks to Chris Delgado of the International Food Policy Research Institute and the International Livestock Research Institute, Alex Duncan of St Antony's College, Oxford, Zhai Fengying of the Institute of Nutrition and Food Safety, Beijing, Felipe Fernandez-Armesto of Queen Mary, University of London, Ray Goldberg of Harvard Business School, Susan Jebb of the Medical Research Council's Resource Centre for Human Nutrition Research, Jean Kinsey of the University of Minnesota's Food Industry Centre, Dennis Lombardi of Technomic, Barry Popkin of the University of North Carolina, Andrew Prentice of the London School of Hygiene and Tropical Medicine and Isabella Thomas.

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Computer games

Invaders from the land of broadband

Dec 11th 2003 | SEOUL
From The Economist print edition

Could South Korea hold the key to the next generation of online computer games?

IN A country better known for its heavy industry and manufactured exports, some young South Koreans are working hard on software products and services with potentially world-beating characteristics. They beaver away on computers, but their desks are piled high with comic books, animated videos and plastic action figures. They are giving mythical characters new looks, creating surreal landscapes and building a fearsome arsenal of lethal weapons. Welcome to the world of MMORPG, or massively multi-player online role-playing games.

The companies that employ these game designers, most of them based in Seoul, account for only a tiny share of the world's computer-games industry, which is worth some $32 billion once games and hardware are added together. But steadily their online fantasies are increasing in popularity, and in the process the firms are pioneering new ways to make money on the internet. What the South Koreans have begun to do is take online gaming beyond hard-core gamers and to a far wider audience. They are also trying to export their games to other countries.

South Korea got a flying start because of its rapid roll-out of high-speed broadband, which began in the late 1990s. By last year, reckons Morgan Stanley, an investment bank, more than two-thirds of the nation's households had subscribed to broadband services, compared with an estimated 15% in America and 8% in western Europe. But having fat information pipelines and games to play is only part of the story. There are plenty of serious gamers in every country who have already signed up to online games, such as Sony's “Everquest”. And there are also plenty of online games that have floundered for a lack of appeal.

So what makes South Korea different? Its game developers learned quickly that many players want more than loud noises, fast action or clever computer characters. More importantly, they are also eager to meet each other. This is why the country's most popular online games involve role-playing sagas, which thousands of PC users can be logged into at any one time. Online, their virtual personas interact in complex and, of course, occasionally violent ways.

Pay as you play

On one level, the games are revved-up, visually enhanced internet chat rooms. Instead of fibbing

awkwardly about their jobs, backgrounds or marital status, the players create virtual alter egos, which are transformed into colourful avatars to represent themselves in the online world. But, unlike an internet chat room, users can attack annoying people with their sword as well as their keyboard. And, by allowing players to accumulate weapons, social ties and other assets over time, the games reward users for sticking with one game and playing it often. Because the gamers pay as they go, rather than just once for the traditional game that they load onto their computer, it can be extremely lucrative if they get hooked. NCsoft, the biggest South Korean online games firm, last year earned an operating profit of 77 billion won ($62m) on revenues of 155 billion won—a margin of nearly 50%.

NCsoft made its name with the 1998 launch of a game called “Lineage”, which trumpets “combat, siege, political, and social systems”. Although the company continues to add new landscapes and scenarios, in October it launched a pepped-up new version, “Lineage II”. Another popular game is Webzen's “MU”, named after a mythical continent from Korean legend. The game allows for 100,000 combinations of weapons, armour and other personal features, which means one of its big selling points is that a player is unlikely to meet anyone exactly like himself.

Even though each player is unique, an important feature of a MMORPG is that users can enter into groups and alliances. They can join a clan by getting married (some players have married in real life) or team up to fight a fleeting battle. They can also trade weapons and other assets, offer advice, or pressure someone into picking a fight with a third party. As a result, the developers have limited control over a game's direction, and it is never really won or lost. Most players are there for the adventure. As they wander around the landscapes, they speak freely through dialogue boxes that appear on the screen.

The wide availability of broadband has clearly made it easier for the South Korean firms to attract more than just hard-core gamers. Young men are a big audience, but the South Korean firms are also attracting women, who seem especially fond of virtual avatars. One online firm, Plenus, runs a popular web portal called NetMarble which does a good business selling everything from virtual hats and handbags to virtual plastic surgery for computer avatars.

Another firm, Nexon, offers games that have been adapted for children. These incorporate some role-playing, but are less grisly: the kids smash a blob of jelly with a hammer instead of spearing a rival. But they are no less commercial. Parents have to top up their children's online accounts with a credit card to enable them to splash out on avatar accessories.

NCsoft and Webzen have successfully launched similar games in Taiwan and mainland China, adapting their technology and business models as they go. Instead of billing monthly and letting users pay through their mobile phones, as most do in South Korea, they offer Chinese users pre-paid accounts. Webzen is especially proud of its system for producing three-dimensional graphics. Although it sacrifices some quality, it gave the firm an advantage over NCsoft in China by allowing users there to play such online games using PCs that are relatively cheap and less powerful.

But the big markets of Japan, America and Europe will require a lot more adaptation and creativity. NCsoft's first foray into America was a failure. Seo Jun-mo, the company's head of planning, reckons the firm did not take into account just how different the tastes of America's gamers were. But he is undeterred. NCsoft is redoubling its efforts and has acquired a couple of American companies to help it devise games that marry American tastes with his firm's networking capabilities.

The problem NCsoft faced is that most games in Japan, America and Europe are played on specially made consoles, such as Nintendo's GameBoy or Sony's PlayStation2, which is already enabled to play online. Outside of the dungeons and dragons brigade, most console and PC games tend to involve individuals pitting their wits against their software by racing cars or surviving shoot-'em-up adventures.

That may change as broadband connections become more widely available in other countries. If it does, online game firms could have a huge advantage. For one, their games run on computer servers so they don't have to worry about selling compact discs or game cartridges. With no inventory worries, they do not have to navigate entrenched distribution systems in overseas markets. That could help the South Korean firms. So too will their development process. The big Japanese gamesmakers treat each of their PC and console products as a potential blockbuster, finely crafted to the very end. But online games may not have an end, so their production is more flexible and it demands fewer resources. The games evolve to suit their players' tastes.

This gives South Korea a chance, perhaps a slim one, to thrive in offshore markets. But as they run into Sony with PlayStation2 and Microsoft with its Xbox, will the South Koreans be treated as allies or as

invaders?

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Semiconductors

Happy days are here again

Dec 11th 2003
From The Economist print edition

After its worst-ever crash in 2001, chipmaking is booming

SUDDENLY, chipmakers are looking happier. The semiconductor industry had its worst-ever year in 2001, when sales fell by an unprecedented 32%. In 2002, sales were flat. This year, however, sales have grown by around 15%. Since most of this growth came in the second half of the year—the war in Iraq and SARS having dampened sales in the first half—the actual pace of growth is even greater. According to the latest figures from the Semiconductor Industry Association, a trade body, sales of chips grew by 7% in October alone.

“The first half of the year didn't pan out, but the second half more than made up for it,” says Gary Grandbois of iSuppli, a market-research firm based in El Segundo. The firm's latest figures, published under the title “The good times roll for semiconductor suppliers”, show that half of the world's leading chipmakers experienced double-digit sales growth this year. This, in turn, means that demand for high-tech products that rely on fancy microchips is picking up too. The recovery is being led by a surge in PC sales, which grew by around 15% in the third quarter of this year, and by booming sales of mobile phones, which may exceed half a billion for the first time this year. Mr Grandbois says there are even signs of life in corporate technology spending. “We are starting to see upgrades in IT,” he says.

Richard Gordon, a chip analyst at Gartner in New York, says he expects consumer spending, particularly on mobile phones, to give way to a gradual, more broad-based recovery in corporate technology spending as companies upgrade old PCs and buy new communications equipment over the next two years. The semiconductor industry's crash in 2001 was unusual, says Mr Gordon, in that it was caused by a collapse in demand as the internet bubble burst. Normally, the industry's crashes are the result of oversupply. Anticipating further strong growth (the consensus is around 20%) for 2004, chipmakers will soon start to increase capacity, he says. This will lead to oversupply in 2006, at which point the market will stall again. For chipmakers, that is no more than business as usual.

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Internet governance

Swiss fudge

Dec 11th 2003 | GENEVA
From The Economist print edition

Rich and poor nations are squabbling over how best to run the internet

AFTER two years of preparatory talks, this week's first round of the United Nations' World Summit on the Information Society, should not have been contentious. Rather than demonstrate a harmony of global interconnectedness, however, the conference revealed serious divisions in the way the governments of rich and poor nations think about the internet.

The first stumbling block was the attempt to address the “digital divide”. This term describes the inequality of access to computers and the internet in developing countries compared with the rich world. Some countries, notably in Africa, called for the creation of a special fund by western countries and technology firms to help subsidise hardware and software for poor countries. The idea got a frosty reception. The compromise reached is for a voluntary fund, if it goes forward at all.

The very idea of a digital divide, though it may suit western firms eyeing new markets for their wares, is misleading. For one thing, it makes greater sense to focus on the more important divides in development, literacy, hygiene and medicine. The gap is also narrower than most people realise. One reason is that it has traditionally been measured in terms of infrastructure, such as telephone lines or PCs per person, which undercounts access to the internet through schools, offices or cybercafés. The UN's International Telecommunication Union (ITU), which co-ordinates the global telephone system, made this point in a new study.

The second big bone of contention was how to run the internet's addressing and numbering system: the top-level domains (such as .sg for Singapore) and their corresponding numerical internet addresses, which are used to route digital traffic. The system is currently controlled by a private body, the Internet Corporation for Assigned Names and Numbers (ICANN), which has weak representation from governments and operates under the authority of America's Department of Commerce. Some countries believe the co-ordination of the internet's core infrastructure should be placed on a more multilateral footing under an international treaty organisation such as the ITU.

Ironically, ICANN itself was set up in 1998 in an attempt to internationalise the management of the internet. It was established as a private body to avoid bureaucracy and political wrangling. Yet America is wary of a completely intergovernmental approach, since it might jeopardise the internet's capacity for free speech and technical innovation. Some of the countries that want more of a say—China and several Middle East and African nations—have dubious records on transparency, human rights and press freedom. They seek more power not to preserve the internet's character as an open medium, but to control it better within their borders. So although ICANN has many flaws, America is reluctant to change things too quickly. The business delegation also expressed its support for the status quo.

With no clear solution, the summit's declaration called for the establishment of a UN working group to develop policies on how to govern the internet in time for the summit's second round in Tunisia in 2005. It may cover everything from top-level domains to spam and cybersecurity.

A fudge, in short. But it is a positive sign that countries are discussing how to run the internet, since it requires global solutions to its problems. Clearly, the old utopian dream that the internet would undermine the very notion of the nation state belongs in the dustbin of history. The reality is rather more mundane: the sorts of disagreements that characterise other global issues such as trade, the environment and human rights, are now migrating to the network, as the internet becomes part of the fabric of everyday life.

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The coffee industry

Planting trouble

Dec 11th 2003 | KHE SANH
From The Economist print edition

Despite the price slump, Vietnam has a new taste for coffee

THE village of Khe Sanh, a former battleground in the hills of central Vietnam, is something of an oddity: a booming coffee town amid a global coffee slump. During the mid-1990s, when coffee prices soared, Vietnamese farmers planted coffee bushes with abandon. In a decade, the country grew from the world's 16th-biggest exporter to the second, helping to create a worldwide coffee glut in the process. This week, as coffee farmers and industry officials gathered in Geneva for a crisis meeting, the Vietnamese are pushing ahead with a new strategy—one that could shake up the market all over again.

The plunge in coffee prices brought ruin to many farmers worldwide. According to a new report by Oxfam, a British aid group, the slump is boosting the drugs trade. In Ethiopia, which produces some of the finest coffee, many growers have uprooted their bushes to grow Khat, which can be chewed as a narcotic and sold for more money. In other countries, such as Peru, coca—which can be processed into cocaine—is being grown as an alternative.

Vietnamese coffee-growers have also suffered because of the glut in the market. But not the farmers in Khe Sanh, who have prospered and in the process prompted a nationwide recovery scheme. The key to Khe Sanh's survival is arabica, a pricier bean than the robusta variety most Vietnamese farmers grow. Vo Danh Ke, who owns 2.7 hectares of arabica bushes near the village, says they earned him the money to buy a new motorcycle, a television, floor tiles and roofing. His neighbour, Dang Sy Tich, explains how he made enough from his arabica crop to pay off his initial investment in land in just four years. The price has fallen recently, he concedes, but he is still earning a better living than he did growing cassava and rice. “I want to stick with coffee,” he concludes.

At the moment, arabica accounts for less than 5% of the coffee bushes in the country. But production has doubled since 2000, according to VICOFA, the Vietnamese growers' association. Doan Trieu Nhan, VICOFA's chairman, explains that cheap labour and high productivity make Vietnam one of the world's lowest-cost producers of coffee of all varieties.

So he reasons the solution to low prices is not to stop growing coffee, but to improve quality and switch to varieties with higher margins. Vietnamese farmers did cut down perhaps 10% of their coffee bushes last year, he admits, but mainly in infertile areas where they never should have been planted in the first place. Instead, VICOFA is encouraging struggling robusta farmers to switch to arabica. Mr Nhan hopes the same factors that made Vietnam the world's biggest robusta-producer will propel an expansion of arabica.

That is easier said than done. Most of Vietnam's coffee grows in the south, where the climate is not suited to arabica. A special training scheme, whereby big international buyers such as Kraft and Sara Lee teach growers how to meet their quality standards, also promoted the spread of arabica in Khe Sanh.

In general, however, the Vietnamese government makes a mess of agricultural improvement schemes, says Mandy Woodhouse of Oxfam. It has found the poorest coffee farmers on the least fertile land receive the least help from the government in terms of training, subsidised inputs, concessionary loans and so on. Many of these farmers come from ethnic minorities, speak little Vietnamese, have little formal education and so have the least access to information about prices. They are the people, by and large, who lost money at the height of the slump and who had no safety net to tide them over.

On the other hand, middle-class Vietnamese are investing successfully in arabica without any help, much as they rushed into robusta in the mid-1990s. Duong Xuan Vien, another farmer in Khe Sanh, says he gave up his desk job at a state-owned firm and moved to the hills to grow coffee. “No one wants to quit,”

he says. “Even now we're planting more.”

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Beverages

Two for tea

Dec 11th 2003
From The Economist print edition

Innovations in ready-made drinks

DESPITE lower prices for coffee and tea as commodities, they still provide entrepreneurs with opportunities. From the tea bag, which celebrates its first century of commercial use next year, to Starbucks, innovation continues—especially with ready-to-drink teas and coffees, one of the fastest-growing parts of the beverage market. The latest idea is a new type of vending machine being tested in Europe. It dispenses hot or cold cartons of tea and coffee.

The idea is to use fully the capacity of vending-machines, which in countries with seasons are usually busy only in the summer dispensing chilled drinks. The new machines, which chill drinks, can microwave them as well. Cartons containing Nescafé coffee, for instance, have a new type of label which reacts to temperature: it is blue if served cool, but turns red when heated.

The company behind the trial is innovative too. Beverage Partners Worldwide (BPW) is a 50-50 joint-venture between America's Coca-Cola and Europe's Nestlé. Barely three years old and with fewer than 50 employees, it already boasts wholesale revenues of $1.4 billion. It was set up to exploit new ideas for ready-to-drink tea and coffee by combining Coke's distribution with Nestlé's product science and brands: Nestlé's Nestea, for instance, is a brand leader in Asia, the biggest market for iced teas.

Hans Savonije, BPW's boss, calls the Swiss-based firm a “virtual” company. It takes ideas, such as a new iced tea for the Greek market; researches, develops and tests the product; produces a business and marketing plan, and then presents the completed concept to its partners. By operating as a lean and flexible independent company, says Mr Savonije, BPW can move much faster than an in-house team. He wants at least 25% of BPW's product line to be new or re-invented every year.

Is that possible with a simple drink? Tea, for one, is an infinitely “scalable” product, says Nalin Miglani, a BPW director. It is widely regarded as a healthy drink and can be flavoured or blended in many ways. The Japanese lead the world in drinking iced coffees and teas—consuming 63 litres (133 American pints) a head last year, almost five times as much as Americans. With demand for ready-to-drink teas expected to grow by an annual compound rate of 26% in Europe alone, the new vending machines should be busy.

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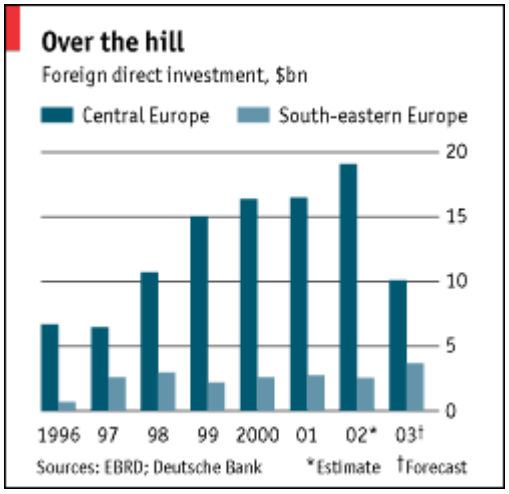
Investing in central Europe

Cooling down

Dec 11th 2003 | BRATISLAVA
From The Economist print edition

The prospect of higher wages slows the flow from foreign investors



FOREIGN direct investment into central Europe fell sharply in 2003 for the first time in seven years, and turned negative in Hungary, according to estimates from the European Bank for Reconstruction and Development and other institutions. This reflects a diminishing stock of privatisations, but also worries among investors that entry into the European Union (EU) will push up wages and other costs. While FDI inflows have been declining in most of the eight central European countries joining the EU next year, they have increased in Romania and Bulgaria, which will not join until 2007 at the earliest, and in the countries of the western Balkans, which will join the EU later still, if ever.

Hungary, once the region's top destination for FDI, suffered a net outflow in 2003 for the first time since the end of communism. According to Deutsche Bank, gross inflows of FDI fell from $850m in 2002 to about $300m in 2003, while gross outflows rose from $265m to $800m, leaving a net outflow of $500m. Other analysts put the net outflow higher still.

Foreign investors appear to have taken fright at Hungary's fast-rising wages, up 12% in real terms in the first nine months of 2003. They also have to contend now with base interest rates of 12.5%, more than ten percentage points above euro-zone levels. Outward FDI from Hungary was high mainly because of acquisitions by the country's biggest oil company, MOL.

Even in a thin year, central Europe can take comfort that it has locked in enough investment in the car industry almost to guarantee more. The Czech Republic, Hungary, Poland and Slovakia together produce about 1m vehicles a year, enough to attract a rising number of component suppliers to the region, which should in turn attract more assembly plants.

Capacity increases and new plants already on the drawing board are expected to raise regional output to almost 2.4m vehicles a year by 2007. Hyundai, a South Korean carmaker, expects to decide by February where to put a new plant producing 300,000 cars a year by 2007. It has already ruled out the Czech Republic and Hungary as too expensive, leaving it a choice of Poland or Slovakia.

Slovakia's case was strengthened by its parliament's recent vote to confirm a 19% flat rate for corporate and personal income tax from 2004, one of the lowest and simplest tax regimes in the region. A bigger advantage is its low labour costs. ING Bank calculates that total costs, including wages and social contributions, were about *euro*4 euros ($4.90) an hour in Slovakia in 2003—14% less than in Poland and 35% less than in Hungary. But even in Slovakia, labour costs are more than twice those in Bulgaria or Romania, and EU accession is likely to drive them up further. Increasingly, it will have to be the skills and productivity of central European labour, not its raw cost, that bring in the jobs.

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Succession planning

The King Lear syndrome

Dec 11th 2003
From The Economist print edition

Companies are starting to take seriously the need to groom top talent

“WHEN clients talk to us about chief-executive succession, it's usually too late,” says Tony Couchman, a headhunter with Egon Zehnder International. Certainly that was the case at Boeing, where the departure of Phil Condit last week made clear that the company had no succession plan beyond retrieving Harry Stonecipher, a previous president, to run the show.

Boeing is not the only big company caught out in this way. When Sir Chris Gent, chief executive of Vodafone, said he would leave in a year's time, Lord MacLaurin, the chairman, discovered that the company had no succession strategy. The board hired Spencer Stuart, a big search firm, and scoured the world. Arun Sarin, a Vodafone non-executive director, was picked from the shortlist of four.

Vodafone now does things in a more orderly way. Succession planning stretches far down the company: last month Lord MacLaurin interviewed 60 youngsters to pick 30 for fast-track careers; a senior director is in charge of succession planning; and every country where Vodafone operates has a plan drawn up. More companies than before now plan to avoid a last-minute scurry. A new survey of boardroom practice by Korn/Ferry International, another search consultancy, finds that only 33% of boards had a management succession committee or process in 2001. By this year, that had leapt to 77%.

“Succession planning has become the second most important topic discussed by boards,” says Chuck King, head of Korn/Ferry's global board-services practice. (Top of the list is making sure that the right chief executive is in place to begin with.) Even Disney now listens. Sarah Teslik, executive director of the Council of Institutional Investors, a lobbying group, says that she has demanded for years that Disney draw up a succession plan, but Michael Eisner, the company's domineering CEO, has refused to allow it. When she talked to senior Disney executives two months ago, they assured her that a plan now existed—although they refused to say what it is.

Ms Teslik thinks that behaviour has been changed by the insistence in the Sarbanes-Oxley Act that boards meet in “executive session”—ie, without the executives present. “I personally asked Mr Sarbanes for this provision for that purpose,” she recalls. “How can directors talk about your succession while you are in the room?”

The frequency with which chief executives come and go adds to the pressure. In a new book* Dennis Carey, vice chairman of Spencer Stuart, points out that the average chief executive's tenure has dwindled in the past decade from eight years to less than five. That leaves little time to groom the next generation.

Yet big companies rarely pick from outside. To do so is usually a sign that they are in trouble—as when IBM brought in Lou Gerstner, passing over Michael Armstrong, a man talented enough subsequently to become boss of AT&T, because it would have been hard to persuade the stockmarket to accept an IBM insider at that point. A well managed transition to an insider is a sign that a company is well run.

The short list

For the board, drawing up a succession plan is a good way to spot future problems. Mr Couchman describes one company that found to its dismay that it had only ten possible successors for 30 top jobs. But there are advantages for the boss, too. After all, one way to secure a sort of immortality is to pick one's own successor.

But in most companies, the succession process is controlled mainly by the chief executive. “Only the CEO can make sure that good people move among departments and get exposure to different parts of the business,” points out Tom McLane of the Directorship Search Group. Often, the chief executive offers the board a single favourite son as his candidate. That does not satisfy Bill George, a former CEO (of Medtronic, a medical-technology company) and author of a book on “Authentic Leadership”. “The board must insist on multiple candidates,” he says. He speaks admiringly of the way Jack Welch groomed three possible successors at GE and made sure that the board got to know each one well, even encouraging individual directors to visit the three in the divisions they were running. For a very large company, such a policy may be possible. Mr George admits that he presented only one candidate to the Medtronic's board. “But I did so five years early.”

However, many CEOs are unco-operative, partly because they hate the idea of retirement. For his study, “The Hero's Farewell: What Happens when CEOs Retire”, Jeffrey Sonnenfeld of Yale University conducted a survey of 100 recently retired chief executives. He found that they were significantly less willing to contemplate stepping down than were other senior executives. For example, 30% had made no preparations for retirement, compared with only 16% of senior managers. Not surprisingly, CEOs were less likely to retire of their own volition than other top managers. And, even after retirement, CEOs hung around: 57% of them retained an office at the firm for at least two years (compared with 23% of senior managers).

One way to get chief executives to take succession seriously, says Mr Carey, is to create a financial incentive. Boards now make drawing up a succession plan part of the criteria for a boss's pay. “Twice a year, the board should ask the question,” he advocates: “Joe, if you were hit by a truck, who do you recommend should take over your role?” The CEO should then write the name in a sealed envelope, to be opened only in a truck-hitting eventuality.

Some former chief executives remain on the board, perhaps as chairman, thus trying even harder to keep control of succession. Mr Sonnenfeld's study found that 72% of retiring CEOs remained on the board (compared with 9% of senior managers). Sometimes, the chairman then stages a comeback—not just at Boeing, but also at Dow Chemical, where Bill Stavropoulos, who had handed over the chief executive's job to Michael Parker, took charge again when Mr Parker was fired.

Understandably, few chief executives want to encourage a bright youngster to covet their job too early. England's Queen Elizabeth I drove her court mad by refusing to name her successor until she was on her deathbed. To have an heir hanging about for too long meant trouble in court. Luckily, not many CEOs wait quite that long.

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* “How to Run a Company: Lessons from Top Leaders of the CEO Academy” by Dennis Carey and Marie-Caroline von Weichs.

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About sponsorship

Face value

Parmalat's rescuer

Dec 11th 2003
From The Economist print edition

Why a big European food processor suddenly needs help from Enrico Bondi

ROPI

UNTIL recently, Parmalat looked like an unqualified success. A family-owned group, it had expanded from its origins in the ham-producing region around Parma in Italy to become one of the world's biggest and best-known producers of long-life milk and dairy products. It pioneered brand advertising, notably paying racing drivers to wear its logo on their helmets.

Floated on the stockmarket, but still controlled by the founding Tanzi family, Parmalat has thrived. It employs more than 35,000 people, operating in more than 30 countries. Last year its turnover was a healthy *euro*7.6 billion ($7.2 billion). So why does it need urgent help from Enrico Bondi, a 69-year-old turnaround specialist who is remembered chiefly for rescuing the Montedison food and chemicals group from bankruptcy a decade ago?

A dry, almost severe man, Mr Bondi is seen as a representative of a modernising faction within Italian business and finance. Well known for getting to work at 6.30 am—and calling colleagues at 7am to ask how business went the previous day—he never gives interviews to journalists and prefers to relax by working in his olive groves near Arezzo in Tuscany. At Telecom Italia, he caused consternation by driving himself in a Fiat Punto, explaining that he did not like having a chauffeur who might overhear his conversations. No one doubts that he has a sharp business brain.

He will need it. This week, Parmalat went into meltdown. It almost defaulted on a small bond issue, an event that threatened to trigger the financial collapse of the entire group. Parmalat's credit ratings have been slashed to junk status amid confusion about whether it will be able to repay its big debts. Luciano Del Soldato, appointed only a few days previously, resigned as finance director. And after an emergency board meeting, Mr Bondi was appointed as a senior “consultant” with a mandate to sort things out.

Mr Bondi is well trusted by the banks, but he faces a tough task. First he must determine how everything went so horribly wrong at Parmalat. Next he must stave off the threat of a short-term liquidity crisis: not only does the group have other bonds coming due, but it must find $400m by the end of the year to pay off minority investors in its Brazilian arm. Then he must decide how to restore Parmalat's longer-term reputation. All three steps will demand tenacity and guile, not least because Mr Bondi must gain the co-operation of Calisto Tanzi, the group's founder and still its chairman.

That will be tricky. In past roles, Mr Bondi has always demanded full executive powers, something that served him in good stead in stints at Telecom Italia and, most recently, Lucchini, a steelmaker where he

remains managing director for now. But if Mr Tanzi contests his power, things could be messy. Mr Tanzi's attitude will be a measure of his deference to the banks. The banks gave him no choice but to accept Mr Bondi's presence; and Parmalat now depends on them for survival.

Mr Bondi already knows that appearances at Parmalat have been deceptive. It was (and remains) a successful operating company with powerful brands and strong market positions. But there had been whisperings about its financial entanglements for many months. Investment analysts had long complained of a lack of transparency. They also queried Parmalat's strange balance sheet. For instance, Parmalat held large cash balances offset by big debts—current gross debt is some *euro*6 billion, but the group claims to have around *euro*4 billion of cash or equivalents. Why was it using a structure that was so obviously inefficient? Further, why did Parmalat issue lots of bonds, only to buy many of them back?

It gradually emerged that Fausto Tonna, finance director until he resigned in March, had helped the Tanzi family to construct a complicated web of financial obligations, many of them in off-balance-sheet vehicles. No one knows yet precisely how this web works and it will take Mr Bondi weeks, if not months, to unravel it. But it is key to understanding Parmalat's problems.

In the dark

Mr Tonna, who remained at Parmalat after his resignation, had little time for interfering analysts and preferred to keep investors in the dark. Parmalat's accounts for 2002 failed to disclose, for example, that *euro*496m of its “cash” had been invested in Epicurum, a mutual fund based in the Cayman Islands. Parmalat had also entered into a huge currency swap with Epicurum.

When the holding in Epicurum was disclosed last month, there was a furore. Parmalat only admitted the investment after a request from Consob, Italy's normally feeble stockmarket regulator. The group then tried to quell market fears by saying on November 12th that it would withdraw its money within 15 days. On November 14th Alberto Ferraris, who had succeeded Mr Tonna last March and tried to champion greater transparency, resigned. Insiders say he had simply been excluded from top-level meetings about the Epicurum exposure. A management group around Mr Tanzi and Mr Tonna was calling the shots.

Unfortunately for Parmalat, events were moving beyond its control. Mindful of the impending withdrawal of *euro*496m, other investors in Epicurum feared for their own funds and triggered a rush for the exit. Parmalat was unable to get its money out. It asked its banks for short-term help, but was rebuffed.

When this emerged on December 8th, trading in its shares was suspended and the board reluctantly convened the next day. Mr Bondi's appointment was the price of the banks' support. His first reassuring step was to put his name on a statement confirming that Parmalat will not default on the contested *euro*150m bond issue that is due for repayment at the latest by December 15th. But his next steps are not so obvious. Even for a turnaround expert, Parmalat represents a challenge.

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Offshoring

Relocating the back office

Dec 11th 2003 | BANGALORE, LONDON, SAN FRANCISCO AND WASHINGTON, DC
From The Economist print edition

Reuters

The shift of service jobs to low-cost countries has only just begun. It promises huge benefits to consumers everywhere

THE debate over “offshoring”, a phenomenon unheard of a few years ago by many of those now loudly proclaiming its economic effects, is in “the percolating phase,” says Brink Lindsey of the Cato Institute, a Washington, DC, think-tank. It could, he adds, be “a potentially potent contributor” to the increasingly protectionist mood in the American capital.

The debate has been brewing since a study by Forrester, a research group, in 2002 claimed that 3.3m white-collar American jobs (500,000 of them in IT) would shift offshore to countries such as India by 2015. There has been standing room only at recent presentations of a report by the McKinsey Global Institute suggesting that this process of “offshoring” benefits both the countries involved in it (see chart 1). It is, says the consultants' research arm, a “win-win” formula.

Everyone’s a winner 1
Benefit per $1 of US spending sent offshore, 2002 est

United States	
Savings accruing to US investors/customers	0.58
Imports of US goods and services by providers in India	0.05
Transfer of profits by US-based providers in India back to US	0.04
Net direct benefit retained in US	0.67
Value from US labour re-employed	0.45-0.47
Potential net benefit to US	**1.12-1.14**

India	
Labour	0.10
Profits retained in India	0.10
Suppliers	0.09
Central government taxes	0.03
State government taxes	0.01
Net benefit to India	**0.33**

Source: McKinsey Global Institute

Others are not so sure. Stephen Roach, the chief economist at Morgan Stanley, talks about a “new and powerful global labour arbitrage” that has led to an accelerating transfer of high-wage jobs to India and elsewhere. He reckons this is adding to the bias towards jobless recoveries in western economies. An anonymous e-mailer claiming to represent a group of Boeing engineers is putting it about that Boeing's offshoring of some design engineering work to a new centre in Moscow is causing lay-offs that are cutting “deeply into Boeing's talent pool”. The e-mail also alleges that this is putting “the safety and quality of Boeing airplanes at jeopardy”.

Although there have been no federal legislative proposals in America against offshoring per se, there has been a tightening up on the granting of visas that allow foreign workers to enter America for training and temporary employment. The annual quota for so-called H-1B visas used by itinerant Indian software programmers fell in October to 65,000 from 195,000 a year ago. The idea is to prevent foreigners from taking Americans' jobs. In fact, the effect may be the reverse. Craig Barrett, the chief executive of Intel, a chipmaker and a big employer of Indian engineers, says that America's main problem is a lack of suitably educated engineering graduates. The impact of fewer visas may thus be to encourage American firms to shift more work to India, where well-qualified computer engineers are plentiful.

English spoken here

But the vast majority of the service jobs that are now going offshore do not require highly qualified engineers. Multinationals may in future do original R&D in low-cost places, but for the moment most of the jobs on the move are the paper-based back-office ones that can be digitalised and telecommunicated anywhere around the world, plus more routine telephone inquiries that are increasingly being bundled together into call centres.

Several American states have moved faster than the federal authorities in trying to halt this “labour arbitrage”. Lawmakers in New Jersey have proposed a bill to stop firms using foreign workers to fulfil state contracts. Public pressure forced the state to bring back a helpline for welfare recipients that had been outsourced to India. For similar reasons, in late November Indiana withdrew from a $15m contract with the American subsidiary of a leading Indian IT outsourcing firm. Governor Joe Kernan said that the contract did not fit with Indiana's “vision” of providing better opportunities to local companies and workers.

On one estimate, America accounts for over 70% of all offshoring business. The second biggest market is in Britain. Big companies there regularly announce that they are moving service jobs abroad, many of them involving the wholesale transfer of call centres. In late October, the HSBC banking group announced that it is taking 4,000 jobs from Britain to India, and earlier this month Aviva (the Norwich Union insurance group) said it is transferring 2,350 jobs, also to India.

As yet, such moves have been less politically contentious than in America. Patricia Hewitt, Britain's minister of trade and industry, responded to those concerned about the job losses by saying it was a “myth” that offshoring would create widespread unemployment. Nevertheless, her department has commissioned an independent study into the competitiveness of Britain's call centres. Representatives of Amicus, a big British finance-sector union, were this week seeking to persuade the European Parliament to set up a more general inquiry into the likely impact of offshoring on Europe's economy.

The offshoring business remains predominantly English-speaking. It is dominated by American and British companies outsourcing their internal operations to third parties in places such as Ireland, Canada and South Africa, but most of all in India. The fact that America and Britain have relatively liberal employment laws has also been influential in the shift of business overseas. If offshoring is, as McKinsey claims, a “win-win” formula for both sides, the process is set to give English-speaking countries a significant competitive advantage.

There are examples to be found elsewhere. A few Japanese companies have shifted operations to north-east China, where Japanese is spoken, and Bain & Co, a consultancy, forecasts that the offshoring market in Russia will grow by 45% by 2006, compared with 57% for India. Eastern Europe too has been making a play for offshoring business based on its relatively low wages and physical proximity to western Europe. In September, DHL, a logistics firm, announced that it will shift its data centre in Britain and parts of its IT operations in Switzerland to a state-of-the-art services centre in Prague that will oversee all the company's European IT operations.

But the current political and market uncertainty in Russia could well constrain

growth there for some time to come. And all of eastern Europe suffers from an excess of red tape. Earlier this year Lufthansa opened an accounting centre in Krakow in Poland. The German airline says that it is pleased with the quality of its staff. “Our employees are first-rate, but the paperwork is excessive,” says Hedwig Hardtke, the head of the centre. A further threat to eastern Europe's offshoring business lies in the forthcoming entry into the EU of countries like the Czech Republic and Poland. That is sure to narrow wage differentials with the rest of Europe and eradicate much of the rationale for offshoring there.

India looks likely to remain the most attractive offshoring destination for some time

India looks likely to remain the most attractive offshoring destination for some time. It sees its main competitors as China and Malaysia. But Sanjukta Pal, a consultant with PricewaterhouseCoopers, says that the cost of operations in India is currently 37% lower than in China and 17% lower than in Malaysia. The Philippines is another country that is well equipped to provide competition in the future. It produces almost 300,000 college graduates a year, all of them English-speakers. But they are competing against India's annual crop of around 2m college graduates, 80% of whom speak English.

Much more than low cost

The main advantage of shifting business operations to India and similar low-cost countries comes from a combination of lower wages and the improvement in the quality and price of international telecommunications. A report by HSBC says that the cost of a one-minute telephone call from India to America and Britain has fallen by more than 80% since January 2001. With high-grade jobs, the saving on wages is not as high as with lower-grade ones. NASSCOM, India's National Association of Software and Service Companies, reckons that an IT professional with three to five years' programming experience earns $96,000 in Britain, $75,000 in America and $26,000 in India. At the other end of the scale, low-grade call-centre jobs that in Britain earn a salary of $20,000 earn less than one-tenth of that in India.

But the benefits of offshoring are not confined to lower costs. An article in the latest issue of the *McKinsey Quarterly* says that many companies that move their back-office functions offshore miss huge opportunities to reap efficiencies beyond those that come from using cheaper labour. “Companies are merely replicating what they do at home, where labour is expensive and capital is relatively cheap, in countries in which the reverse is true.” For one thing, offshoring allows companies to work round-the-clock shifts, ferrying data back and forth from one place to another as the sun sets. For another, it allows them to rethink the way they solve IT problems. American Express, for example, paid local programmers in India $5,000 to write some software that it needed. To have bought a software package that could do the same job would, the company estimates, have cost it several million dollars.

For the future, offshoring promises to diminish the effects of the demographic crunch in countries where the ratio of the working population to the total is set to fall. HSBC reckons that America would require an extra 8.6m workers to maintain the ratio at its 2000 level for 20 years. Countries that are reluctant to allow in immigrant workers to do their unfilled jobs now have the option of sending some of those jobs out to the workers, before they even think of emigrating.

The benefits of offshoring are not confined to lower costs

Despite all the advantages of offshoring, there are also disadvantages. With voice services—such as directory enquiries, for example—local knowledge is often important. So too are accents and culture. In late November, Dell got itself into a tangle when a spokesman in Texas said that the computer-maker was bringing some of its Indian-based customer-inquiry services back to America because “customers weren't satisfied with the level of support they were receiving”. The next day, however, a spokesman for Dell in India denied that the work was returning.

Whatever the truth of the matter, there is no doubt that customers with complex queries requiring local understanding do not respond well to far-off operators repeating parrot-fashion a series of learned responses. Convergys, one of the world's biggest providers of “contact-centre services”, advises companies to shift simple queries offshore while retaining the more complex ones on the same shore as the caller. It calls this process “rightshoring”, and estimates that about 80% of the companies that it is working with in Britain are planning to split their call-centre operations in this way.

Boomerang jobs?

Many companies have not yet taken anything like full advantage of offshoring. Harris Miller, president of the Information Technology Association of America (ITAA), a lobby group, says that offshore locations have so far captured just 3-4% of all American companies' outsourcing. The bulk remains onshore in the hands of big firms such as Accenture, CSC, EDS and IBM. A report by Forrester released at the beginning of this week says that 60% of Fortune 1,000 companies are doing nothing, or are only just beginning to investigate the potential of offshoring (see chart 2). Mr Harris says some big companies have told him that up to 40% of their outsourcing business could end up offshore. That suggests the industry still has a long way to grow.

Technology may accelerate that growth. One thing currently limiting the ability of companies to outsource tasks, says Bain's Simon Heap, is the inflexible architecture of modern business-information systems. It forces firms to perform tasks as a series of discrete steps. So a business wanting to outsource some of those steps (billing, for instance, or customer service), but not others, gets involved in designing horribly complicated flows of information that are all too prone to error. Newer software and hardware promise a future in which, says Mr Heap, firms will be able to outsource smaller and smaller slivers of their business. They will not, as now, have to commit themselves to outsourcing the whole of, say, their customer-service department or nothing.

Early days 2

Characteristics of offshoring customers, 2003

Stage in offshoring evolution	% of Fortune 1,000 companies at this stage	% of IT-services budget going offshore
"Bystanders"	50-60	0
"Experimenters"	25-30	1-5
"Committeds"	5-10	10-30
"Full exploiters"	< 5	40-50

Source: Forrester

There are limits though to how far the phenomenon can go. First of all, there are natural limits to the shifting of service jobs overseas. Many of them are in industries like hotels and restaurants, or in public services like education and health, most of which can never be moved abroad. In Britain, some 60% of all service-sector employment falls into this category. Then there are alternative pools of labour to be tapped at home. Citigroup, for instance, has hired about 100 college students in America to do programming for it, and it pays them $17 an hour. The bank reckons that is about half what it would have to pay comparable programmers in India.

Technology too may place some constraints on offshoring. Irving Wladawsky-Berger of IBM argues that some of the tasks currently going to low-cost centres may eventually return because their underlying technologies will evolve in a way that makes economic sense of putting them back in rich countries. At the moment, for instance, customer-service call centres are very labour-intensive. McKinsey says that wages account for 70% of the costs of a call centre in America. That is why they are rapidly shifting to Bangalore, Hyderabad and other Indian cities.

But firms such as AT&T are working on speech-recognition software that might, says Hossein Eslambolchi, AT&T's chief technology officer, soon be good enough to replace a lot of the routine inquiries currently handled in call centres. Indian call-centre employees, in other words, might soon find themselves competing with “offshore” computers in New Jersey, and Indian doctors currently providing remote diagnosis of patients in other countries might find themselves undercut by a supercomputer's analysis of, say, digital mammograms and dental records.

Indian territory

Reuters

Some workers feel trampled underfoot

The business of shifting back-office functions offshore began in earnest in the early 1990s when companies such as American Express, British Airways, General Electric and Swissair set up their own “captive” outsourcing operations in India. However, many of these captives are now finding that their costs are up to 50% higher than those of independent third parties. British Airways' captive business was recently spun off as an independent Indian firm called WNS, handling high-volume, low-value back-office business processes for a dozen western airlines and a raft of other big companies. In what might become a model for other such offshore captives, WNS was bought in 2002 by a private-equity firm, Warburg Pincus, and a group of its own managers.

A bunch of home-grown Indian IT groups have become powerful players in the market for offshore IT services: companies such as Wipro, Tata Consultancy Services and Infosys. They got their big breaks as subcontractors to overloaded western firms during the Y2K software crisis at the turn of the millennium. Now they are beginning to expand beyond core IT maintenance and support work into helping multinationals, for instance, to roll out new software applications.

Younger Indian IT firms are competing in an increasingly crowded market by offering different services. For example, vMoksha builds, operates and then transfers offshore centres to multinational clients, flouting the usual Indian reluctance to hand over ownership. In another sign of the growing sophistication and maturity of the industry, big western outsourcing firms such as Accenture, EDS and IBM are developing their own facilities abroad in order to shift more of their outsourcing business, currently performed in the West, to offshore destinations. But the cost advantages for the latecomers are being continually eroded. Salaries in Bangalore have been rising with the demand for skilled workers, and firms like Wipro and Infosys invest heavily in training and facilities. The Infosys campus in Bangalore's Electronics City, for instance, is the equal of anything in Silicon Valley.

A better deal

The protectionist response to offshoring may force some government work that would otherwise have gone abroad to remain at home, the extra cost to be picked up, of course, by the taxpayer. But government work is only a small part of the market. David Tibble, the boss of WNS, says that it accounts for some 30%; the rest is in the hands of a private sector that is just awakening to the extent to which offshoring can boost its productivity.

Offshoring is not new. Pankaj Ghemawat, a Harvard Business School professor, suggests that the whaling fleets and floating factory ships of the late 18th century “can be said to have originated offshore manufacturing”, a development that accelerated sharply in the 1980s and 1990s. But the beginning of what seems likely to be a mass migration of traditional in-house corporate services to third parties abroad presents companies with new structural challenges.

Many fear the loss of control implicit in the process. But Jane Linder of Accenture's Institute for Strategic Change says that the majority of those who pass on traditional back-office functions to others find, in the end, that substituting a single supplier for many employees allows them greater control and discipline over their operations. At the same time, it frees them to think more clearly about strategy. And the boost to efficiency means lower prices and better services for customers everywhere. That, surely, is not something to fear.

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German finance

Something stirs

Dec 11th 2003 | FRANKFURT
From The Economist print edition

An odd way to achieve financial reform

WHEN Hans Eichel, the finance minister, unveiled a new plan for the German financial sector last week, he announced triumphantly that “Germany is on the move.” It probably isn't. Much of what needs to be done is controlled by the states, not by Mr Eichel; his proposed reforms are narrowly German; and German officialdom is still disturbingly resistant to change in the financial industry.

For one example of the malaise that holds back change, take the ruling on December 10th in a Munich court that Deutsche Bank, the country's largest bank, must pay damages to Kirch, a big media group that went bust last year. Rolf Breuer, chairman of Deutsche's supervisory board, had remarked on television that Kirch, then sinking but not sunk, could expect no more help from its banks. Mr Breuer should have kept quiet—Kirch was a client—but the media company's plight was plain in any case. Underlying Kirch's suit has been the odd notion that someone else should be punished for its demise.

Deutsche's legal troubles are not over. The amount of compensation to Kirch has still to be decided; and next month Josef Ackermann, in effect the bank's chief executive, goes on trial in Dusseldorf. Allegedly, he was too free with bonuses to the management of Mannesmann, on whose supervisory board he sat, when the telecoms company was taken over by Britain's Vodafone in 2000. The amounts might not have been thought unseemly in the United States, and were a fraction of the rise in Mannesmann's market value before the takeover. The Dusseldorf prosecutor, however, thinks the awards were illegal.

Stralsund shows the way

For another example of the drag on change, consider the 500-odd municipal savings banks that hold half of the money in Germans' savings accounts. None of these banks has ever been privatised, even though private-sector banks, which have only 15% of savings deposits, would like the chance to buy some. Now Harald Lastovka, the mayor of Stralsund, an eastern German town, wants to sell his local savings bank and give the proceeds to schools and hospitals. As *The Economist* went to press, the town's councillors were expected to vote in favour of pursuing the idea. However, the state finance ministry opposes the sale fiercely, as does the federal association of savings banks.

Nowhere but in Stralsund is there any sign of a loosening of the three-pillar structure of private, public and co-operative banks that stultifies the banking system. Mergers within each sector are being discussed openly: the latest idea is a tie-up between two public-sector banks, Landesbank Baden-Württemberg and the smaller Landesbank Rheinland-Pfalz. However, mergers between banks of different types might also make sense, given that there are so many small banks, that retail-banking franchises are small, and that margins are thin. The federal finance ministry might like this, but the laws that govern the savings banks are set at state level, where politicians are hostile to such reform.

Germany's banks, which once stood behind (and partly owned) Europe's most powerful industries, are now outranked by rivals from America, Britain, Spain and Switzerland. There is even some concern that Deutsche, of all banks, might be bought by foreigners. “The conquerors are at the door,” said Mr Breuer last month, speaking as chairman of the private banks' association. No wonder German financiers and politicians periodically decide that change is essential.

Mr Eichel, flanked by Mr Ackermann and Ernst Welteke, head of the Bundesbank, spoke of new measures to rationalise the tax treatment of turnover and profits, to encourage new types of pension and property investments, smoothe the flow of capital to smaller companies and broaden financial literacy. But he suggested nothing to change the three-pillar banking structure. And it is not only the banks that Mr Eichel has to worry about.

Another headache

The life-insurance industry has been undergoing its worst crisis in decades. Last year the country's 120 life firms set up a rescue fund, in case any should prove too weak. They became a favourite target of aggressive hedge-fund managers who bet on falls in their share prices and even on bankruptcies. This June Mannheimer Leben became the first German life insurer in 50 years to go bust. The capital base of some smaller player€s remains dangerously thin. Fitch, a credit-rating agency, estimates that the industry is short of €45 billion-50 billion ($55 billion-61 billion) of capital. The big firms have already gone to their shareholders for cash and they may have to ask again. Allianz, Germany's biggest insurer, has raised €4.4 billion of new capital this year, and plans to issue €1.5 billion of subordinated debt in 2004.

Two months ago Mr Eichel offered life insurers some help, by proposing to allow them to set losses on their investments in shares against taxes on their operating earnings. In return insurers would have to pay capital-gains tax on share sales, which was abolished in 1999. Now Mr Eichel has had a new idea, due to be discussed by parliamentarians on December 19th, that is much less welcome. From January 2005, he wants to scrap the tax exemption on the lump sum paid when endowment policies mature. This would make one of the most popular types of life insurance far less appealing to investors.

All in all, Germany's entire financial sector looks weakened and ripe for consolidation, maybe with the help of foreign capital. Yet the biggest flaw in Mr Eichel's new initiative is that it is so narrowly German. The capital markets now deal in euros, not D-marks. Outside Germany, three European stock exchanges have merged into one and may yet snare the London Stock Exchange. Germany's stockmarket is a pigmy by rich-country standards, less than half the size of Britain's and one-fourteenth the size of America's. Yet Deutsche Börse, the main German stock exchange, has concentrated on its home turf, despite links with smaller European exchanges and a new derivatives venture in Chicago. Mr Eichel's initiative seems more concerned with making German finance competitive by keeping foreigners out than by luring them in.

London's Big Bang in 1986 had the opposite aim and effect—although, as a Bundesbank official points out, most British merchant banks disappeared as a result. “We certainly don't want the British system,” the Bundesbanker says, “which is dominated by four big banks charging excessive margins and leaving smaller companies in no man's land.” Hmm. Even in Germany small companies have been ill-served by banks in recent years, and new rules on bank capital, due at the end of 2006, will raise German banks' margins, public and private, closer to “British” levels. A dose of foreign competition—and ownership—

may be just what Germany's financial sector needs.

Citigroup, the world's biggest banking group, is thought to be keen to add corporate banking to its successful retail presence in Germany, by buying a big bank. Some see Credit Suisse as a possible suitor for Deutsche Bank. If mergers involving big German institutions are to happen, the country's officials would like to see the resulting entities take their big decisions in Germany, not Zurich or New York. Perhaps Mr Ackermann, a Swiss who once ran Credit Suisse, would be an acceptable head of a combination of his old bank and his new one. But that assumes the idea is seriously discussed—and that he gets through his trial in Dusseldorf.

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Austrian banks in central Europe

Home from home

Dec 11th 2003 | WARSAW
From The Economist print edition

The advance of Austrian banks

HERBERT STEPIC, a veteran board member of Raiffeisen Zentralbank, an Austrian bank, still recalls his colleagues' unease in 1986 when he recommended the opening of a subsidiary in Hungary. As it happened, that first foray into the then communist block created a bridgehead for rapid expansion when the iron curtain fell.

Raiffeisen and two larger Austrian rivals, Bank Austria Creditanstalt (now owned by Germany's HVB) and Erste Bank, have advanced into all the main markets in central and eastern Europe. Faced with tight margins in a congested home market, they have been eager to step into a region that looks set for growth. Even in central Europe's most advanced countries the value of outstanding loans, relative to GDP, is still less than one-sixth of the average in the European Union.

Cultural and economic ties dating from the Habsburg empire give the Austrians a competitive edge over bigger banks from farther afield. Of the 62% of central and eastern Europe's banking assets that are owned by foreign banks, the Austrians have more than a quarter, far ahead of the second-placed Italian banks. Having paid 101.3 billion forints ($455m) in September for Hungary's Postabank, the country's second-biggest retail bank, Erste Bank has the largest retail network in central Europe. In the first half of this year, Raiffeisen made 70% of its pre-tax profit in the region. Erste Bank made 40% of its money there, and Bank Austria 30%.

Trouble on Europe's fringes, however, is to be expected: Raiffeisen was badly scalded in the Russian crisis of 1998, although it has since benefited from a “flight to quality” by Russian oil groups. Even in central European countries on the verge of joining the EU, not all has gone smoothly. In 2000 Erste Bank acquired Ceska Sporitelna, the dominant savings bank in the Czech Republic, which had lent recklessly under a flawed privatisation programme. Although Erste Bank inherited clean, ring-fenced assets, it took time to coax its once-bitten, twice-shy staff into lending again.

Bank Austria's most prized possession, BPH PBK, Poland's third-largest bank by assets, was hit by a prolonged economic downturn that turned a lot of loans sour—although it now seems to have recovered. Steep falls in interest rates in Poland and the Czech Republic have squeezed the banks' net interest income. This has put a premium on generating more revenue from fee-based services, for example by selling pensions and insurance policies.

Having the strongest retail presence, Erste Bank looks best placed to diversify, by cashing in on the strong growth in consumer finance, particularly credit cards and mortgages. Bank Austria and Raiffeisen have also been pushing hard into less developed south-eastern Europe, where margins—but also credit risks—are higher. Mostly, they have chosen to set up new banks rather than acquire existing ones, although Raiffeisen hopes later this month to clinch an agreement to buy Albania's savings bank.

Raiffeisen has even ventured into crummily authoritarian Belarus. In January it bought most of Priorbank, the country's third-largest bank. Mr Stepic, who admits that this raised eyebrows in Vienna, is unfazed. “There was”, he says, “a similar reaction when we entered Hungary.”

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American property insurance

A stitch in time

Dec 11th 2003 | WEST GLOCESTER, RHODE ISLAND
From The Economist print edition

FM Global prefers prevention to probability and engineers to actuaries

IN A new, $78m research facility in Rhode Island, FM Global routinely blows up, batters and burns all sorts of materials and structures. The company is one of the handful that dominate the market for insuring large industrial and commercial property. Its penchant for testing things to destruction is a sign of its unusual approach to underwriting risks, based on preventing losses rather than on minute analysis of probabilities. Indeed, it employs 1,400 engineers, more than all its competitors together, and no actuaries.

No burning need for actuaries

This may be unusual, but it is also remarkably successful. Barring a disaster, FM Global is likely to conclude a second year with a combined ratio (operating costs and claims losses divided by premiums) of only 70%. For almost 20 years, most property-and-casualty insurers have put up with combined ratios of more than 100% and tried to bridge the gap by investing premiums. A ratio of 90% is regarded as heroic. Anything less verges on being too good to be true.

Up to a point, FM Global's superb results are due to luck. The company buys little reinsurance, which is likely to make its figures better in good years but worse in bad ones. Its success may therefore indicate that property insurers' long lean spell has finally ended. Even so, it may simply be that FM Global is very good at the most basic and elusive underwriting skill: separating good risks from bad.

The bear market in property insurance dates back to the mid-1980s. Conditions worsened in the 1990s, prompting many of the largest participants, such as Kemper and Industrial Risk Insurer, to cut their exposure or get out altogether. These difficult times led to the creation of FM Global out of three companies, already closely linked. The combined salesforces were reduced by two-thirds and costs by 28%.

However, in 2000 prices finally began to rise. They went up further after the attacks of September 11th 2001, says FM Global's chief executive, Shivan Subramaniam. In sum, they climbed by 60-75% before levelling off recently. This year the company's premium income will be nearly $4 billion, three times the tally in 1999. About two-thirds of this gain has come from higher rates and clients' growth, and the rest from new business.

However, FM Global's peculiar approach to underwriting may well have helped too. Its army of engineers evaluates clients and pushes them to make their buildings safer, on the premise that most losses are

avoidable. This strategy of emphasising loss prevention rather than statistical analysis stems from the company's origins. In 1835 Zachariah Allen, a textile manufacturer in Rhode Island, became famous for designing an unusually fire-resistant mill, which is still studied in university architecture classes. To take full advantage of his design, Allen founded an insurance company. He reasoned that it could charge lower premiums than its competitors and yet thrive, because it would face a lower likelihood of loss.

The model was later repeated for other insurance companies, each focusing on a distinct type of mill: initially cotton and wool, then rubber, iron, and steel. By 1910 there were 42 such insurers, loosely affiliated in what became known as the Factory Mutual System. A huge, jointly owned research operation served all the members. Successful clients adopted the member firms' recommendations; others found this too burdensome and bought insurance elsewhere.

Consolidation steadily whittled down the membership of the Factory Mutual System until the final mergers in 1999. The vast research core remains. The new facility, which FM Global claims has the capacity to stage the world's largest controlled fires, was opened this autumn.

The company thinks that businesses could still do more to avoid costly accidents. Mr Subramaniam estimates that in the early 1990s perhaps 90% of all losses could have been eliminated by better design. This number has since shrunk, but only to 80%. There is therefore plenty of room for improvement, which might make everyone from insurers to clients and their employees better off.

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The dollar

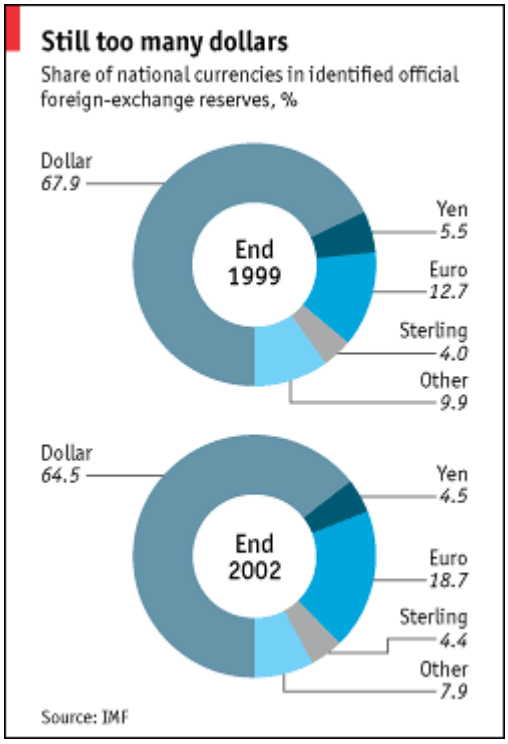
A central question

Dec 11th 2003
From The Economist print edition

How long will central banks outside America keep buying greenbacks?

IT IS hellish hard these days to find anyone who is bullish on the dollar. You might cynically think it time, therefore, to start buying greenbacks. It is still too soon. The dollar did pop up briefly on December 9th, after the Bank of Japan apparently intervened to stop the yen rising, but the Japanese central bank has already spent some $168 billion on dollars this year, and the yen has climbed by 11% against the American currency. Perhaps the yen would have risen by more had the Bank of Japan spent less: this week the euro was up by 42% from its lowest point against the dollar and sterling was at its highest since being ejected from Europe's exchange-rate mechanism in 1992.

The dollar has been weakening even as America's economy has been picking up sharply. At the start of this week it fell after an upbeat assessment by the Federal Reserve. The Fed said that it would keep interest rates unchanged and that they would not rise for a “considerable” period.



The health of the economy may now be part of the dollar's problem. Americans save so little that their spending must be financed by foreigners, which is why the country's current-account deficit has been rising so swiftly, to half a trillion dollars or so. Until recently, this foreign investment was largely of a private nature; however, as concerns about the scale of the deficit have mounted, private flows have dried up somewhat and central banks have been topping up the stream.

This year central banks around the world have added some $44 billion to their reserves, mostly in dollars. But this total disguises the extent to which Asian central banks have been collecting dollars in order to stop their currencies appreciating against the currency of their export market of choice: America. The foreign-exchange reserves of Asian central banks increased by $299 billion between the start of the year and the beginning of September, estimates Goldman Sachs. The investment bank reckons they might have piled up another $50 billion since then.

Again, most of this seems to have been poured into dollars. One reason for thinking so is that, according to the American Treasury, foreign central banks have bought $180 billion-worth of Treasuries and federal agencies' bonds this year. Goldman Sachs points out that these are just the purchases for which good records are kept: some, perhaps much, of the rest might have gone into American corporate debt or other dollar assets.

Whatever the detail, the overall picture is clear. At the end of September, central banks held $2.9 trillion of foreign-exchange reserves, according to the IMF. Asian central banks—chiefly the Bank of Japan, with $590 billion—accounted for over a third of that total. Almost two-thirds was in dollars. How much longer will they want to keep piling up assets whose value shows no sign of doing anything but fall? The people managing central banks' reserves are not as concerned by that question as their private-sector colleagues are, because they do not have to make a profit. But not even they will want to invest all their country's hard-won wealth in one asset, especially a depreciating one.

Goldman's economists suggest that 61% of a properly diversified foreign-exchange reserve would be in

dollars, with 32% in euros and 7% in yen. As the chart shows, central banks had already been moving away from dollars and towards euros to some extent even when Europe's single currency was falling. Even so, less than 19% of their portfolios are in euros, a proportion that probably has not risen much this year. Jim O'Neill, Goldman's chief economist, thinks that central banks will increasingly wake up to the benefits of diversification.

The need to diversify will be especially acute for Asian central banks, which hold perhaps 70% of their rapidly growing reserves in dollars. Until now, they have been concerned to stem the dollar's rise, but they will become less fixated about the greenback, suggests Mr O'Neill, when they realise that America is no longer such an important export market. He thinks that there will be a “magical moment” when Asian countries become confident that their own regional markets matter more to them than America does. “Once you get to that point, why on earth would you accumulate so many dollar reserves?” Mr O'Neill asks. And the impact on the dollar? “Potentially catastrophic.”

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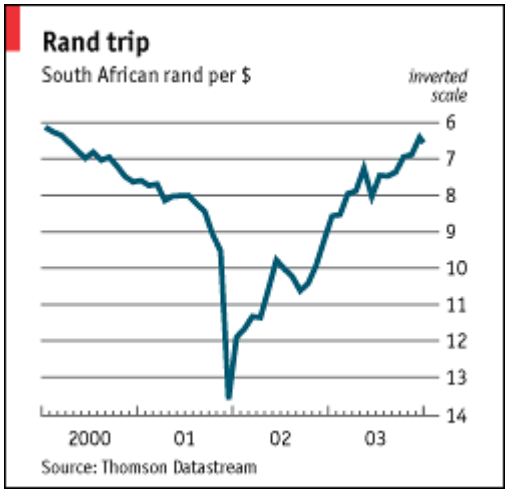
South Africa's surging currency

The grand rand

Dec 11th 2003 | JOHANNESBURG
From The Economist print edition

Is it really too strong?



WITH a keen ear, you may notice more South African accents in New York or London shops these days. The rand has risen by roughly a quarter against a basket of currencies this year. Against the dollar, it is up by a third. Two years ago a dollar bought 11 or 12 rand (and briefly more than 13); lately it has been fetching six and a bit. For the rand's rally, thank not only the weak dollar but also strong prices for gold and platinum exports, and high South African interest rates.

Not surprisingly, many South Africans lament the rise of the rand. Exporters hurt, booming tourism is likely to slow, and miners and builders are giving warning of lower growth and increasing unemployment. The official statistics office says 57,000 people lost jobs in the second quarter, mostly in construction. George Soros, a financier, calls the strong rand “harmful”.

However, a strong currency has its good points, and not only for those well enough off to do their Christmas shopping abroad. Import prices have fallen, dragging inflation below 5%. This has let the central bank reduce interest rates five times since June, by a total of five and a half percentage points. The latest cut, of half a point to 8%, was made on December 11th. Now that debts are easier to service, the confidence of consumers and business people is rising. The government spends less on foreign debt when the rand is strong (although, on the other hand, weaker exports reduce tax revenues). Meanwhile, South African companies can afford to buy foreign firms, notably telecoms companies elsewhere in Africa.

A buoyant rand might make some industries more competitive. Some suppliers of high-quality goods and services are still doing well. British supermarkets like South African fruit and vegetables because suppliers have efficient tracking systems. Cheaper imports could help to destroy some local near-monopolies, such as in paper and beer supply. And the strong rand is exposing some strange kinds of trade protection. Thus the competition commission is looking into a government deal that encourages carmakers to export by letting local prices stay artificially high.

More awkward than the strength of the rand, however, are its rapid changes in value. South African firms spend much time and money guarding against swings in the currency. Volatility will probably persist, if only because the rand is widely traded: daily turnover on South Africa's foreign-exchange market amounts to $10.6 billion. Heavy intervention to stabilise the rand looks unlikely, even though the central bank is plumping up dollar reserves. This dollar-buying is probably helping a bit. Some economists also recommend removing the last controls on foreign-exchange trading by South Africans. After several rollercoaster years, a little stability would be welcome.

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Economics focus

No pain, no gain

Dec 11th 2003
From The Economist print edition

An occasional crisis may be a price worth paying for faster growth

DOES slow-and-steady win the race? When it comes to liberalising their financial markets and industries, many poor countries hope so. Remember the crises that have afflicted financially liberalised economies such as Mexico, Russia, Argentina and some in South-East Asia, and their caution is easy to understand. Why open the gates to foreign capital, only to invite excesses that will cause pain and disappointment later?

The fear of currency crises and the subsequent unemployment, bankruptcies and stalling of economic growth have made many developing countries' governments even more wary about the free flow of capital than they are about free trade in goods. Freely flowing capital can indeed be destabilising. So-called “hot money”—portfolio flows that can reverse direction at lightning speed—can send currencies spiralling up or down and play havoc with economic management. Such an experience during the Asian crisis of 1997-98 led Malaysia, for example, to introduce capital controls in order to thwart what it perceived as outsiders' nefarious schemes. Despite foreign scepticism when the controls were imposed, they seem to have done Malaysia little harm. A more general suspicion of foreign capital, going far beyond worries about flighty portfolio investment, was one reason behind developing countries' refusal to consider further financial liberalisation at the World Trade Organisation's failed ministerial meeting in Cancún in September.

But financial systems can be liberalised a lot without letting in hot money. If a government opens up to investment from abroad—allowing foreign banks to buy local institutions, say, or allowing domestic banks to raise money on international capital markets—local banks can lend more to businesses large and small. This matters, because bank credit is often the only source of finance for many firms. The downside is that banks may become over-eager and make loans on which the returns do not justify the risks. That can produce horrible busts.

So the slow-and-steady school seems to have a certain appeal. Nevertheless, it is wrong, according to a recent paper* by Romain Rancière, of Pompeu Fabra University in Barcelona, Aaron Tornell, of the University of California at Los Angeles, and Frank Westermann, of the University of Munich. They look at the performance of poor countries between 1980 and 2001 in order to assess the impact of financial liberalisation on economic growth. Their chosen measure of financial liberalisation is the stability of bank lending over time. India, for example, has kept banks' lending on a tight leash and thus has maintained a fairly stable rate of growth of credit. Thailand, in contrast, was a liberaliser. It let credit expand rapidly, right up until its crisis in 1997, when lending contracted sharply. Thailand suffered the typical fate of liberalisers: its companies owed debts in foreign currencies that their baht earnings could no longer cover.

India's safe approach was not as wise as it looks. Between 1980 and 2001 its GDP per head just about doubled. Impressive? Not next to Thailand's, which expanded by 150%, despite the deep recession induced by the 1997 crisis. Granted, there are many reasons for India's slow growth: its lack of economic liberalism has not been confined to finance. However, the authors estimate that Thailand's rapid credit growth explains between a quarter and half of the difference between its performance and that of India.

Across the 52 countries studied, the authors argue that there is a common trade-off between stability and average growth rates. They think that financial liberalisers grow by two percentage points a year more on average, with banks' credit growth alone accounting for perhaps one point. This is striking if correct: over a long period, an extra percentage point of growth a year can make a huge difference to living standards.

A Chinese conundrum

Yes, you might say, but does this trade-off really exist? China would seem to be an exception. Financial liberalisation has been slow—foreign banks are being let in only one step at a time—and yet China's economy is growing at breakneck speed. In fact, argues Mr Rancière, China's high growth rate has been driven by very incautious lending by domestic banks. The country has taken just as many risks as more liberal countries have, but is yet to pay the price. The scale of bad loans at the country's leading banks (almost a quarter of the total, says the government; much more, says everyone else) would seem to bear him out.

One reason why liberalisers do well, suggest the authors, is that crisis does not mean eternal chaos. Most of the countries covered suffered only once in the short period they studied. This is not to deny that the consequences of crises can be painful. Yet there are measures that liberalisers can take to avoid crises, or at least to lessen the resulting pain. They can strengthen their laws and courts to reassure investors that their loans will be repaid: that may dissuade some foreigners from taking their money away in a hurry. All too often, developing countries make the busts more painful than they need to be, for example by delaying inevitable devaluations. Argentina is one country that took longer to devalue than it should have done.

None of this means that countries ought to relinquish all controls over their capital account. Limits on capital flows, especially short-term, hot ones, can sometimes be a good thing. Over the long run, however, the lesson is clear. A more efficient financial sector, even when it leads to a widespread bust every decade or so, may well be worth the benefits it brings by lifting people out of poverty. The hard part is to make those inevitable contractions less painful.

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* “Crises and Growth: A Re-evaluation”. NBER Working Paper No. 10073: available at www.nber.org/papers/w10073

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Correction: Japan's FSA

Dec 11th 2003
From The Economist print edition

Last week ("About time") we called Japan's Financial Services Agency the Financial Services Authority. Sorry.

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About sponsorship

Future of flight

High times

Dec 11th 2003
From The Economist print edition

Aviation has been transformed in the last 100 years. It will go a lot further in the next century as the pilot is eliminated

IF THE inventors of the first heavier-than-air machine capable of powered flight had been transported forward 100 years to the present day, they might be astounded at the way that those who followed in their wake have colonised the air. Today's vehicles bear little resemblance to the shaky craft flown at Kitty Hawk on December 17th 1903, by Wilbur and Orville Wright. New craft have broken the sound barrier, mastered vertical take-off and landing, and visited the moon.

Tomorrow's aircraft are likely to be still more marvellous, and perhaps even more different than today's are from the Wrights' pioneering effort. Predicting how different requires guesswork, an open mind and even a dollop of science fiction. Indeed, a recent study by the European Space Agency noted that many advances had once seemed like the stuff of fiction. The idea of rocket fins for aerodynamic stability (predicted in 1929); the use of satellites in geostationary orbits for telecommunication (1945); and the construction of orbiting space stations, using material ferried from Earth (1945) all once sounded outlandish. All have come to pass.

Imagine the scene. In the middle of a vast hot desert, a sport-utility vehicle carrying six people is speeding along the road. In a nearby country, its progress is being monitored, via satellite, by a military crew in a van stuffed full of computers. Back in the desert, a pilotless aircraft has been cruising silently for many hours, thousands of metres above the ground. The crew sends the plane instructions to fly on a course to intercept the vehicle. Before long, the plane is viewing the car via its onboard video camera. Then, it launches a laser-guided missile that disintegrates the car in a display of impressively powerful violence. All the occupants are killed instantly. This sounds like an episode from a futuristic, and very violent, movie. In fact, it is a description of what happened over a year ago, when a CIA-controlled unmanned aerial vehicle (UAV) was used to assassinate a group of suspected terrorists in Yemen.

Today, at least 32 countries are developing a total of more than 250 models of UAV, and 41 countries already operate 80 types. Most of these are reconnaissance craft, but pilotless aircraft will also be the combat vehicles of the future. As the leading frontier in aviation research, the military's ideas and development on UAVs will be influential in the rest of aviation.

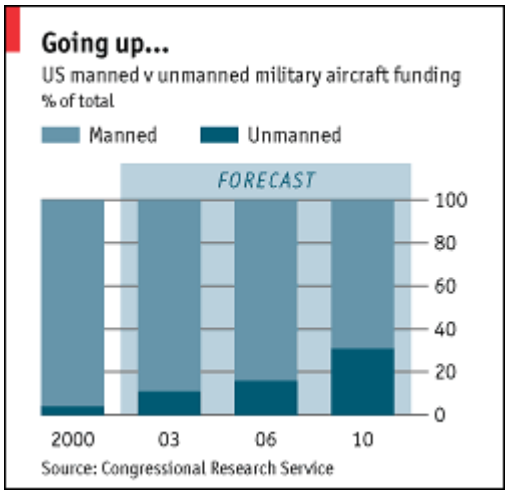
As UAVs have proved themselves in various theatres of war, military interest has blossomed. In the past two years, American spending on them has gone from $300m-400m a year to over $1 billion, according to Laurence Newcome, who runs the website “UAV Forum”. America's Department of Defence expects to spend $16 billion on UAVs between 2002 and 2010. According to a UAV road map from America's

Department of Defence, by 2012 UAVs the size of F-16 fighter aircraft are likely to exist. These will be capable of many combat and support missions, including the suppression of enemy air defences and electronic attacks on enemy sensors. The ultimate goal is to enable America to project its power on to the far side of the globe with no need for nearby air bases, or risk to the lives of pilots.

Initially, pilots and a lot of equipment will be needed back at base to control these remote UAVs. To start with, such bases will look like glorified video-game arcades. Later, pilots may control their craft via suits linked to their neuro-muscular systems. The pilot would sense what the UAV was seeing through sensors on a head-mounted visor. But by 2015-2020, as onboard processing power begins to take off, UAVs are expected to start thinking for themselves. This could lead ultimately to completely autonomous UAVs and swarms of UAVs that talk to one another and operate as a single unit. Research is already under way on the technologies to command thousands of airborne drones.

By 2020, the Pentagon estimates that one-third of America's combat planes will be robotic. UAVs certainly look as though they will be commanding a large share of future military spending (see chart). And the Joint Strike Fighter being built by Lockheed Martin looks as though it will be the last new manned American fighter for decades. By 2100, human military pilots will be a quaint oddity. Why? Even if pilots could be beefed up with an exoskeleton that would allow their bodies to turn under a force 20 times that of the Earth's gravity, they think and react more slowly than computers.

By 2030, it is even possible that UAVs will be able to optimise their shape by “morphing” from one shape to another using stretchy skins and special “memory” materials. By the middle of the century, it is possible to imagine, UAVs shaped for endurance will monitor national borders, changing into swifter-moving attack craft when they decide to intercept an intruder. They may also be built with self-repairing materials capable of detecting flaws, and sealing holes during flight. UAVs might also provide submarines with reconnaissance capability and combat forces with a means of transporting goods or injured men over dangerous or difficult territory using vertical take-off and landing. By 2020, predict some forecasters, they will be able to refuel in the air, and by 2030 will be used routinely to transport soldiers.



The world's smallest UAV is currently the 15cm-long, electrically powered, Black Widow. It can fly for 30 minutes and download live colour video to the ground via its onboard camera. Many such craft are being developed for “over the hill” work, when soldiers need scouts in dangerous areas. Future ground forces are likely to carry insect-sized craft routinely, launching them by hand into the air. Soon enough, these craft may also have “perch and stare” capabilities—to allow surveillance periods lasting weeks. Tiny UAVs may be used as sensors, to mark points for precision air strikes, and for detecting radiological, chemical or biological contamination. By 2100, they will probably be smaller than houseflies and available in supermarkets in packs of ten.

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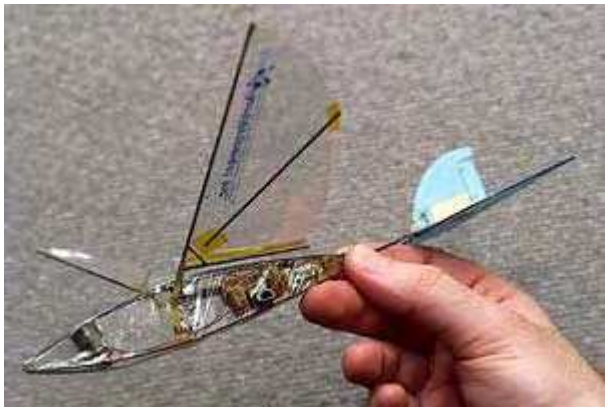

Winged microspies, coming soon to a window near you

Such UAV miniaturisation may also accommodate new power sources and new ways of staying aloft. By 2010, hydrogen fuel cells developed for the automotive industry should begin appearing routinely in UAVs. This will lower their noise and infra-red “signature”, thus making them hard to track.

AeroVironment, of Monrovia, California has already demonstrated a tiny UAV powered by a hydrogen fuel cell and a flapping-wing UAV. Artificial muscles are another propulsion idea, as are UAVs driven using external power sources such as microwave or laser energy beamed from the ground.

One man and his dog

There is a joke in the airline industry that the future crew of an airliner will consist of a pilot and a dog. The pilot's job is to watch all the computers, and the dog's job is to bite the pilot if he tries to touch anything. Although there is a grain of truth in this statement, it will take commercial aviation far longer to eliminate the pilot than military aviation. As existing pilotless vehicles do not carry human beings, they are not designed for reliability—and have a habit of crashing. The public, and regulators, will need to be persuaded that pilotless vehicles are safe.

Manufacturers of civilian aircraft are treading warily on the issue of removing the pilot. The aircraft they are now designing for operation into the 2040s use computers to pick up, and correct, pilot error. But the practicality, and safety, of doing away with the pilot altogether could eventually become obvious to all as, in 20 or 30 years, the military begins to use pilotless vehicles to airlift soldiers, and UAVs start moving cargo routinely around the world. And small UAVs, some say, might one day buzz around cities in place of the Fedex delivery van.

Pilotless vehicles will also find early applications in a wide array of commercial and transnational uses—from fire fighting to geological and environmental surveys, border patrol, film production, research, rescue and even agriculture. These could emerge before the end of the decade if UAVs can obtain swift regulatory approval. And UAVs will not merely replace existing, piloted applications. They will also create new markets. One of their most valuable uses could be as “pseudosatellites”, hovering over cities, providing broadband-communication platforms at a fraction of the cost of the geostationary satellites that currently do that job.

The biggest breakthrough in civil aviation, though, would be the invention of the aerial equivalent of the motor car. The era of the personal “air car” has been predicted since the 1930s. And although much progress is being made, it is still not likely to happen in the foreseeable future. There are some big obstacles.

What is well under way, though, is a new breed of piloted light jet or micro-jet that is designed to operate halfway between public and private transport—a form of air taxi. One such craft is the Eclipse 500. Designed for six people, it is a cheap jet, selling for under $1m. Its creators, Eclipse Aviation of Albuquerque, New Mexico, claim it is cheaper to operate than any jet in existence, and that it has several thousand orders already. Many rival micro-jets are also on the way, including one made by Adam Aircraft Industries of Englewood, Colorado. It is more expensive than the Eclipse 500 but could arrive as soon as the end of next year.

To exploit the availability of such smaller aircraft, the entire air-transport system will have to be overhauled. The number of domestic air travellers in America, for example, is expected to triple within 20 years according to an aeronautics blueprint by America's National Aeronautics and Space Administration (NASA). But if this is to happen, many more of America's 5,000 regional airports will have to be used. Currently, only 64 airports carry 85% of the country's civil air traffic. Yet in the past decade, only one large hub airport and seven new runways have been opened. Given the constraints, few new big hub airports are likely to be built.

True personal air transport, however, will require vertical take-off and landing, not just better access to regional airports. For safety, it may well be necessary to have them operate using the technology for pilotless vehicles. They will also require far more sophisticated air-traffic control systems than exist today.

It is true that air-traffic control is close to making a big leap, though probably to a kind of halfway house toward pilotless flight rather than all the way to what would be required for the creation of widespread personal aviation. Air traffic management is moving increasingly to digital data communications between the ground controller and the cockpit. The next step will be using computer-network technology to allow pilots to fly freely where they want, instead of taking instructions from the ground. The controller will simply be monitoring what is going on. Planes will need fool-proof collision-avoidance systems to tell them how close they are to each other. But once this technology is in place, it could be applied to computers driving planes without human intervention.

Even if it is, one day, possible to design a cheap personal craft that will land in the back garden between the washing line and the goldfish pond, huge social and environmental changes would be required to make it acceptable. Not many people will welcome the prospect of thousands of vehicles flying constantly overhead. Cities would also have to be completely redesigned, at least in the rich world. New towns, and those with less firmly established building and living patterns in developing countries, may have an edge if such vehicles do become available.

Whatever the fate of personal aviation, it seems highly likely that many more people will be flying in the next 100 years as countries become richer. This could have a devastating environmental impact and, given the altitude, quantity and nature of aviation emissions, an especially significant effect on global warming. Decisions have to be made soon. From development to production to service and final scrapping, major new aircraft have a life cycle of some 50 years. Given that planning horizon, 2010 looks like a reasonable target date for improved environmental technologies if much of aviation's glittering new promise is to be realised.

Green skies

Although new technology has improved fuel efficiency and reduced pollution, and will continue to do so, aviation's rapid growth means that many believe that overall emissions will remain static, at best, in the coming decades. Unless, of course, there is some kind of step change in technology. Changes in materials are one possibility. Aviation has gone from wood and cloth, to aluminium and, now, to composites that derive their strength and lightness from the microscopic details of the way they are put together. So-called nanotechnology—in practice, bespoke chemistry—offer the promise of stronger and lighter composites still. Nanotubes or nanofibres could be used to create a material 50 times lighter and six times stronger than current carbon-fibre composites.

Hypersoar: San Francisco to London in under two hours

Another way of addressing the problem of CO2 emissions is through hydrogen-powered aircraft (assuming the hydrogen is generated in a green fashion). Researchers are developing craft where hydrogen is used as the fuel for jet engines and gas turbines. The potential flaw in this plan is that burning hydrogen will generate water. “Bucket loads” of it, says David Lee, an atmospheric scientist at Manchester Metropolitan University. The atmospheric science is unresolved, so it is not known whether hydrogen-powered aircraft would generate more vapour trails than existing planes. But the clouds that can result from these trails are currently one of aviation's largest contributions to climate change.

For smaller aircraft, an emerging green alternative is lightweight fuel cells for use in aircraft such as micro-jets. Today, the technology looks as though it could power planes with around 20 passengers. Electrically powered aircraft already exist. And, next year, a 1,000lb (450kg), battery-powered plane being developed by Advanced Technology Products of Worcester, Massachusetts, should have its first flight.

The dream of commercial supersonic flight has remained elusive. The demise of Concorde would seem to mark an end, because even with today's technologies the economics remain muddy. Future taxpayers are unlikely to be willing to fund a plane used primarily by rich people. The needs of the armed forces, then, are leading much of supersonic research.

And yet some people persist in believing that another commercial supersonic plane will arrive before 2050. Current efforts on supersonic and hypersonic (at least five times the speed of sound) craft focus on new types of propulsion such as “air breathing” rocket engines. Traditional rocket engines carry both fuel and oxygen, but ramjet and scramjet engines take air from the atmosphere. Research on hypersonic aircraft is going on in at least five countries but is much more experimental.

The pulse detonation engine is another possibility for supersonic flight. This uses supersonic shock waves to compress and ignite fuel and air almost instantaneously, but will take about 20 years to mature.

Further ahead, the HyperSoar is a concept for a craft flying at ten times the speed of sound and able to reach any point on the globe within two hours. Hydrogen powered, it would use air-breathing, rocket-based engines to ascend to the outer limits of the Earth's atmosphere where it would skitter in and out of the atmosphere like a stone being skimmed across the surface of a pond. If it works, the craft would also make access to space a great deal cheaper. Today, HyperSoar is little more than an idea. Even if an unmanned prototype is developed, passenger flight at this speed is a long way off, and likely to come long after any military application. Despite, then, the many ideas for supersonic travel, producing an affordable engine that is not too noisy on take-off and landing remains a significant design challenge. One promising sign, though, is that earlier this year it was shown that the noise of sonic booms could be reduced by modifying an aircraft's shape.

If passengers may not have more speed, they are likely to get more comfort. By the end of the decade Boeing's 7E7 “Dreamliner” jet will arrive. Because the plane is made of new materials, it will be able to operate with cabin pressure and humidities closer to normal.

A complex ecology of planes is emerging for different routes and functions. At one extreme are massive aircraft such as the Airbus A380 serving the most popular routes—whose successors will perhaps double its capacity to 1,000 people. At the other end, there will be insect-sized spy craft. Humanity will finally master the skies in the coming century and in doing so will largely eliminate the pilot. With a future this bright for aircraft, what humanity really needs is a cure for jet lag.

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Europe's religious upheavals

Chewing over the meaning of bread

Dec 11th 2003
From The Economist print edition

The Reformation ripped late medieval Europe in two and affected much of the rest of the world, from the Americas to Japan

FROM 1534 until 1549, Alessandro Farnese, Pope Paul III, was CEO of the biggest company in the world, the Roman Catholic church—monopoly provider of the most important service of all, salvation. But the market had just begun to be liberalised, and some feisty and covetous entrepreneurs were eyeing up its market share. Papacy Inc had cash-flow problems because its most bankable product—indulgences to shorten the soul's wait in purgatory—were not selling well. When Farnese called a board meeting in December 1545, several shareholders refused to turn up, accusing him of being the Antichrist.

A century later, the Catholic—or Latin—church had a fixed doctrine on everything from the colour of a priest's robes to what he could read, all upheld by a network of obedient bishops. It had built enormous churches in an architectural style that spoke of confidence and newness, and created a spectacle with which to fill them that kept people coming back. It had also spread the faith well beyond the confines of Farnese's immediate dominions, dispatching missionaries to Japan, China and South America. Diarmaid MacCulloch is Oxford University's professor of the history of the church, and one of the many strengths of his book is that he shows how the Reformation—which English-speaking readers tend to think of as a near-fatal theological blow dealt to the pope—in fact coincided with the Catholic church's most successful period of expansion.

Reformation: Europe's House Divided 1490-1700
By Diarmaid MacCulloch

Penguin/Allen Lane; 864 pages; £25. To be published in America as "The Reformation: A History" by Viking Press in April 2004

Buy it at Amazon.co.uk

The early battles of the Reformation seem to be little more than hair-splitting. The Virgin Mary changed from being *gratia plena* (full of grace) to *gratiosa* (gracious) in Erasmus's 1519 translation of the New Testament, a distinction that threatened the cults of the Virgin that were so popular in late-medieval Europe. Likewise, whereas John the Baptist had cried out in the wilderness to “do penance”, and the church had devised various profitable ways for the faithful to obey him, he now cried out to “repent”. The

precise meaning of the Eucharist—the bread and wine at the centre of the mass—became the most hotly contested issue, even though the church had made do without a precise definition for more than a millennium.

The divisive precision on which the reformers insisted would be hard to understand but for the fact that the price for getting it wrong was an eternity in the fires of hell. The stakes were raised further at the beginning of the 16th century, when Europe was undergoing one of its frequent periods of anxiety over the imminence of Christ's second coming. Signs of God's displeasure were everywhere, but the military successes of the Ottoman empire provided a particularly stark warning that the church was doing something wrong.

The new orthodoxies on both sides were enforced unflinchingly. An outbreak of millennial fervour in Cordoba in 1499 was answered by an unusually zealous inquisitor with a bonfire of 400 souls. Protestant churches were no more tolerant, and England stands out as having killed more Catholics through judicial murder than any other European country. Violence bred violence: the parts of France where Calvinists confronted Catholics produced levels of sectarian bloodletting that observers of 20th-century fratricide will find sickeningly familiar.

No matter how heated the theological debates, the story of the church from the 1520s onwards is a political tale. Evangelical churches flourished where they were indulged by rulers: the German principalities, Zurich, Geneva, Warsaw and England, all provided the necessary conditions. Ireland, where English settlement policies bred resistance to English religion, showed how political patronage could also backfire and create a Protestant elite lording it over a Catholic people.

To take the Protestant and Catholic reformations together across two continents and two centuries without simplifying too much is a major achievement. But Mr MacCulloch also recounts unfamiliar stories about the tolerant Polish-Lithuanian Commonwealth and Jakob Heraklides, a convert from Orthodoxy who enjoyed a brief spell as Protestant despot of Moldova. It is refreshing that he gives them as much weight as the English civil war, dealt with here in a few pages. In the hands of a less-skilled writer this breadth could be disorientating, but “Reformation” succeeds in telling a story about fragmentation without ever falling apart.

Reformation: Europe's House Divided 1490-1700.
Diarmaid MacCulloch
Penguin/Allen Lane; 864 pages; £25. To be published in America as “The Reformation: A History” by Viking Press in April 2004

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About sponsorship

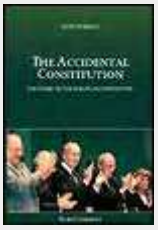
The European constitution

Paper quarrels

Dec 11th 2003
From The Economist print edition

THE Convention on the Future of Europe sat in Brussels from February 2002 until July 2003 charged with writing a new constitution for the European Union. Its president, Valéry Giscard d'Estaing, liked to compare its labours to the Philadelphia convention that wrote the American constitution. If Brussels does indeed turn out to be the new Philadelphia—and the European Union constitution lasts a couple of centuries—future historians will be profoundly grateful to Peter Norman. Padding the corridors of the convention, sitting doggedly through all its deliberations, Mr Norman—a former bureau chief in Brussels for the *Financial Times*—has produced what will undoubtedly be the definitive account of the wranglings over the convention.

The Accidental Constitution: The Story of the European Convention
By Peter Norman



EuroComment; 406 pages; euro35

Buy it at Amazon.co.uk

In truth it seems rather unlikely that the work will last for centuries, or even decades. This very weekend European governments are meeting to re-work the Giscard draft and they can be expected to do substantial violence to it. Given the European Union's hyperactivity it is more than likely that fundamental constitutional debates will in any case be swiftly re-opened. But even if the Giscard constitution is quickly re-written and ultimately discarded, Mr Norman will still have provided a valuable service. His book provides a detailed portrait of the political tensions that animated and divided the EU's political elite at the beginning of the 21st century.

European Union affairs are notoriously impenetrable to outsiders. Mr Norman's account of the convention's debates will, therefore, inevitably appeal more to the cognoscenti than to the general reader. Non-specialists may fail to grasp the full drama of revelations such as: “The commission spurned the Benelux idea for the commission president to chair the General Affairs Council” or “Dehaene underlined the potential for future progress inherent in the existing proposals for more QMV in combination with the passerelle.”

Despite the turgid nature of his raw material, Mr Norman enlivens his account with a gift for anecdote and story-telling. His pen-portraits of many of the leading participants are acute and often amusing. The subtle and ingenious mind of Giuliano Amato, one of the convention's two vice-presidents, is nicely caught by a reported remark from Tony Blair that “trying to work out what Amato stood for was like trying to follow a single strand from beginning to end in a dish of spaghetti.”

Mr Norman's thesis, captured in the title of his book, is that the convention ended up being a much more ambitious exercise than originally envisaged and that it was a real cliff-hanger, the results of which were uncertain right until the very end. To this reviewer—admittedly considerably less assiduous in his attendance of the convention than Mr Norman—this seems to be slightly overdoing it. Despite the opening pretence that the convention might simply present options, from the outset there was a strong federalist push to offer a single, constitutional text. Mr Giscard d'Estaing, although no unadulterated federalist, also swiftly embraced the more ambitious version of the convention's task. His ambition to go down in history with the Founding Fathers of the United States led him inevitably to this expansive view of the convention's task. For similar reasons of personal vanity it was always probable that the convention members would end up signing off on a single text—whatever their occasional histrionics during the course of the meetings.

If and when the European public gets to vote on the outcome of the convention (as suitably amended by European governments), the constitution will prove highly controversial. Polemicists on either side will enjoy mining Mr Norman's work for evidence to support their arguments. But Mr Norman himself—

although he is clearly well-disposed to the convention—deliberately refrains from taking ideological positions. His aim, as the great German historian Leopold von Ranke once put it, is “simply to show how it really was.”

The Accidental Constitution: The Story of the European Convention.
By Peter Norman.
EuroComment; 406 pages; euro35

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About sponsorship

Rock music

The sting of the past

Dec 11th 2003
From The Economist print edition

FEW people know Gordon Sumner. But everyone knows Sting or, rather, his name and his music. The Police left an indelible imprint on the early 1980s, before the immensely talented musician became one of the best-known names in pop music on his own. The Police made “Roxanne” immortal; Sting made “An Englishman in New York”. “Broken Music” traces the transformation of Gordon Sumner into Newcastle's greatest rock musician.

Broken Music: A Memoir
By Sting

Dial Books; 352 pages; $26.
Simon & Schuster; £18.99

Buy it at
Amazon.com
Amazon.co.uk

A musical family planted the seeds. Music then provided an exit and much needed comfort for the adolescent descending into silence and withdrawal. But it was hardly compatible with the delinquent friends of the early years, and the young Mr Sumner kept his promising voice a secret. The more privileged environment of grammar school swept away these considerations, while the guitar replaced the piano as the instrument of choice. The first Beatles songs had a memorable impact. So did Jimi Hendrix's 1966 appearance on “Top of the Pops”.

A string of bands and sometimes dismal gigs filled the following years. With Last Exit, the young man who by then had become Sting—a name bestowed upon him thanks to an unfortunate wasp-like, striped sweater—achieved local notoriety. The band, however, did not survive Sting's move from Newcastle to London. When he met Stewart Copeland, a drummer, and Andy Summers, a guitarist who replaced a Corsican strummer whose style and colourful language failed to make up for his lack of musical skills, the Police trio was born. The band, whose core increasingly rested with the bassist-lead singer-composer, was to break up after a few years of stellar success, poisoned by the growing uneasiness that this imbalance created among its members.

Until the Police hit gold, financial disaster was never very far away. In his early years, Mr Sumner helped out his father, who owned a dairy, with milk rounds. After grammar school came construction work, a short, soulless stint at the Inland Revenue, followed by primary school teaching, which, under the supervision of an understanding nun, proved more compatible with gigs and tours, at least for a while. Modelling and acting also helped.

His mother's lasting infidelity was to cloud Sting's childhood and colour his relationship with his parents until they both died prematurely. After walking in on his mother and her lover, the young Mr Sumner took out his anger and sadness on his grandmother's piano, producing a cacophony she could only describe as “broken music”. The silent rift between his parents turned into a poisonous war of attrition, culminating in a late divorce, before cancer settled all scores. Goodbyes were said, but funerals—and proper mourning—were avoided, leaving a wound that was to fester for years to come.

Sting's many devoted fans will no doubt enjoy knowing everything about his difficult path to stardom. Less partial readers, however, may regret that his talent as a lyricist does not obviously translate into writing books. Yet, after a rather dry and stylistically clumsy start, “Broken Music” ultimately makes for a very personal and touching memoir.

Broken Music: A Memoir.
By Sting.
Dial Books; 352 pages; $26.
Simon & Schuster; £18.99

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Classical CDs

Circles of beauty

Dec 11th 2003
From The Economist print edition

Fill your stockings with the best CDs of 2003

ONE argument for the imminent demise of the classical-record industry is that it focuses too narrowly on an over-played canon of works: do we really need, the doom-mongers say, yet another cycle of Beethoven symphonies or Mozart string quartets to add to the hundreds already in the catalogue? This year's outstanding releases of orchestral and chamber music show that, instead of proving the death of music as we know it, there is an infinite variety to the way great performers renew supposedly familiar music, and, thus, an infinity of life.

Sir William Walton's viola concerto is one of the cornerstones of the viola player's repertoire, and has always represented a particularly English brand of world-weariness and melancholy. But in EMI's recording by Maxim Vengerov, a gifted young Russian, the piece is transformed, becoming intensely lyrical and passionate, especially in the final movement, which he takes at a revelatory, slow speed. Mr Vengerov is familiar as a virtuoso violinist, but here, playing a Stradivarius lent to him by the Royal Academy of Music in London, he proves himself a dazzling viola player as well. He is accompanied by Mstislav Rostropovich, conducting the London Symphony Orchestra, a conductor of unusual authority in the other work on the disc, Britten's violin concerto.

Another kind of revelation comes through in the Zehetmair Quartet's recordings of two Schumann string quartets. The Zehetmair is unique in performing its entire repertoire from memory. Watching the quartet in performance is a thrilling experience, for the music emerges from them as if their four minds had decided upon a kind of supernaturally sophisticated improvisation. ECM's recording captures the essential liveliness and immediacy of these performances, which illuminate the suppleness and strangeness of the works. Schumann's music is full of quixotic passages such as the spectral, pianissimo music just before the end of the A minor quartet, realised by the Zehetmair with painterly vividness.

However, there are few more extreme examples of how a recording can transform preconceptions of a piece of music than Nikolaus Harnoncourt's rendition of Bruckner's ninth symphony with the Vienna Philharmonic Orchestra, on BMG/RCA. Bruckner's ninth is one of the most famous unfinished works in the whole repertoire. In fact, it has become so familiar as a gigantic, three-movement torso that it is easy to forget that Bruckner intended a similarly enormous finale for the piece, but died before he could finish it.

Mr Harnoncourt's recording is remarkable not just for the incisive power he creates in his interpretation of the three completed movements, but also for a performance and discussion (in German and English, and both delivered by the conductor himself) of the music that Bruckner did manage to compose for the finale. These are much more than mere sketches: the movement exists in fully composed and often completely orchestrated sections, amounting to some 18 minutes of music, revealing what would have been the most imposing of all Bruckner's symphonic movements. After listening to the shocking dissonances in the opening of the finale, it is impossible not to see the three existing movements in a new light: what emerges from this new recording is a strong sense of the complexity of Bruckner's musical and spiritual vision.

Two of the most important living composers celebrated anniversaries this year: György Ligeti turned 80, and Elliott Carter was 95, and both received remarkable recordings of their recent music. “The Ligeti Edition” continued on Warner Classics with the penultimate volume of a project to record every single note of Mr Ligeti's music, an undertaking that has spanned seven years and two record companies. This latest release includes one of his most famous pieces, the requiem, made famous when Stanley Kubrick used it as part of the soundtrack for “2001: A Space Odyssey”. Jonathan Nott's performance with the Berlin Philharmonic Orchestra is the most thrillingly realised recording available of this rich and strange music.

No less bizarre is the Hamburg concerto, Mr Ligeti's most recently completed work, which is performed by the Asko Ensemble under the baton of Reinbert de Leeuw. The piece is a surreal dream of a horn concerto, with the solo horn surrounded by four other horns playing in unusual tunings. Mr Carter's remarkable nonagenarian Indian summer continues unabated, and the Netherlands Radio Chamber Orchestra's ECM recording of his first opera, “What Next?”, finished when he was a mere 90, illuminates this dazzling and allusive piece, set in the aftermath of a car crash. The piece is as convincing on disc as it is on the concert platform, and the music, especially the vocal writing for the sextet of characters, is Mr Carter at his most playful, virtuosic and profound. The composer's Asko concerto completes the CD: music of buoyant, joyous fluency, played with startling immediacy by the Dutch players, conducted by Peter Eötvös.

But for the sheer sumptuousness of its orchestral playing, Claudio Abbado's disc, also with the Berlin Philharmonic for Deutsche Grammophon, of Wagner's orchestral music, is peerless. The recording celebrates a particularly special musical partnership, and the suite from “Parsifal” in particular, which encompasses the prelude and a long sequence from the third act, is quite astonishing. Mr Abbado makes the orchestra sound like a single instrument, seamlessly moving from luminous transcendence to existential anguish.

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Jazz CDs

All fired up

Dec 11th 2003
From The Economist print edition

Old friends are the best friends

FOR much of its history, jazz has meant not only the dazzlement of new stars, but also the glories of old masters. And, as this year's crop of CDs shows, the titans of the past still convey the creative fire that made them famous.

Roy “Little Jazz” Eldridge, for instance, was a celebrated jazz gladiator, determined to play his trumpet higher and faster than any of his peers. A three-CD survey of his career, “Roy Eldridge: Little Jazz Giant”, on Avid, takes him from the 1930s—when he astonished the jazz world by his facility—to the 1950s, when his mastery had inspired a generation. Sizzling Eldridge specialities, like “Heckler's Hop” and “The Gasser”, still leave the listener open-mouthed, while two versions of “Rockin' Chair” display his tender side.

Eldridge is generally regarded as the link between the heroics of Louis Armstrong and the quicksilver intricacies of bebop, but sometimes uniqueness defies imitation. When Art Tatum made his first solo piano recordings in 1933, the general reaction was simple amazement that such a torrent of notes could have come from just two hands. Proper's rich four-CD boxed set, “Art Tatum: Piano Grand Master”, enshrines a jazz virtuosity that remains unmatched, and which won Tatum the admiration even of Vladimir Horowitz. Tatum's preternatural dexterity, harmonic invention and rhythmic cunning illuminate such pieces as “Tiger Rag” and “Humoresque” as well as touching forays into the blues, both solo and in ensembles.

Though jazz piano has had legions of practitioners, the number of first-class jazz singers is small, due to the difficulty of turning melody and lyrics into true improvisation. One who emphatically did succeed was Betty Carter, creator of a style which recast words and music into inimitable personal statements. Her bluesy attack could be dreamy, surreal and swinging all at once, as the Verve compilation, “Betty Carter's Finest Hour”, attests. Accompanied by an array of superb young musicians, such masterpieces as “What a Little Moonlight Can Do” show why, since her death in 1998, she is still revered by contemporary singers.

Another jazz lady famous for going her own way is Carla Bley, a composer-bandleader who combines a taste for rich sonorities with post-modern whimsy. Her latest project for ECM, “Looking for America”, is a quirky response to the soul-searching which followed the attacks of September 11th 2001. The CD is dominated by a long suite called “The National Anthem”, a rhapsody on “The Star-Spangled Banner”, which veers from satiric to stirring to heartfelt. Recalling such maverick Yankee musicians as Charles Ives, it is written with Ms Bley's trademark flair and played with robust authority by her band.

The trauma of the terrorist attacks also features in a Motéma CD by the Lynne Arriale Trio. Its title track, “Arise”, is a kind of chorale, offering hope and comfort, while “The Fallen” is more elegiac. The remainder of the items vary in mood and subject, displaying Ms Ariale's agile touch and focused lyricism as well as the close interaction between the three players.

A decidedly more subversive slant on the trio format comes from the group collectively known as The Bad Plus. Not for its members the toe-tapping swing and sleek ballads of the jazz lounge; they cultivate the grunge of punk and garage, with robotic grooves and splattering percussion. Their Sony CD, “These are the Vistas”, includes such gleeful originals as their homage to long-distance lorry drivers, “Keep the Bugs off Your Glass and the Bears off Your Ass”, and a nervy, pulsating version of Kurt Cobain's “Smells Like Teen Spirit”. However, their boldness is not merely flippant, but ingenious and oddly compelling.

No survey of current CDs could overlook the healthy state of jazz in Europe, a fine example of which is

“Universal Syncopations” led by a Czech bassist, Miroslav Vitous for ECM. His elite colleagues comprise an English guitarist, John McLaughlin, a Norwegian saxophonist, Jan Garbarek, and two Americans—Chick Corea and Jack De Johnette—on piano and drums, in a programme of atmospheric, deftly swinging improvisations occasionally incorporating a brass section. Sympathetic and very musical, this CD represents one of the many faces of jazz today, any of which may become the classics of the future.

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Correction: staff books

Dec 11th 2003

The list posted online at www.economist.com/staffbooks includes all books written by staff at *The Economist* which are still in print, and not just those published in 2003, as mentioned last week.

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About sponsorship

Sadeq Khalkhali

Dec 11th 2003
From The Economist print edition

Rex

Sadeq Khalkhali, Iran's “hanging judge”, died on November 26th, aged 77

THREE months after Iran's 1979 revolution, a farmer's lad found himself trying the shah's longest-serving prime minister. The defendant was Amir Abbas Hoveida, a patrician courtier whose ex-wife was famous for sending him, every morning, a fresh orchid for his buttonhole. The parvenu was a plump mullah, pasty-faced and delighted by his new nickname, “Executioner Khalkhali”.

As revolutions go, Iran's was not particularly bloody; the swift assumption of power by Ayatollah Ruhollah Khomeini saw to that. But the quarrelsome revolutionaries wanted revenge on the shah's dictatorship, the only policy they could agree on. As Khomeini's first appointee to be judge, Sadeq Khalkhali was a champion of retributive justice. In the laying low of Hoveida, Mr Khalkhali also saw a chance to radicalise the revolution.

Mehdi Bazargan, the liberal head of the first post-revolutionary government, advocated leniency. Hoveida had to be tried, if only to illustrate the passing of the shah's despotism. But Mr Khalkhali believed that “criminals” should be killed.

Fearing Bazargan would interfere, he therefore acted in secret. He barred people from leaving or entering the jail where the trial was to happen, and locked the telephones in a fridge. Hoveida was charged with a Koranic offence, “spreading corruption”, but Mr Khalkhali conducted the trial according to his own code.

The first hearing was in the middle of the night. Hoveida was not allowed a lawyer. There was no jury. When Mr Khalkhali, the presiding judge, tired of haranguing the defendant, he had him shot. The news hit the world, he noted with satisfaction, “like a bomb”.

The court jester

Mr Khalkhali came from a generation of Shia clerics, modest in origins and radical in politics, who had spent the previous decade shuttling between the seminary at Qom, the shah's jails and lonely points of exile. As a subversive, he was exiled several times—on one occasion for disparaging Cyrus the Great, the shah's great hero, as a sodomising degenerate.

The revolution came when he was 52. There was a whole society to cleanse. Like many members of the new clerical establishment, Mr Khalkhali was intoxicated by the thrill of setting up the world's first Shia theocracy. During the first four months of the revolution, he later claimed, he sentenced some 400 former officials and army officers to death. No one could fault the briskness of his work; in a single day, he was capable of trying and executing ten apparatchiks of the former regime.

For a few months, he enjoyed being Iran's second-most-famous revolutionary. To judge by his girth, he ate well. V.S. Naipaul, who visited him in 1979, likened Mr Khalkhali to a jester at his own court. His jokes tended to be about executions, and other members of the court “threw themselves about with laughter”.

Mr Khalkhali's memoir describes a memorable assault, in 1980, on the tomb of the shah's forebears in south Tehran. Mr Khalkhali was not put off by the opposition of Abolhassan Bani-Sadr, the new president, or by the solid granite of the vault itself. The job required 200 militiamen, bulldozers and, eventually, high explosive. And when, after 20 days of toil, the dust of imperial bones blended with the smell of cordite, “the sound of cheers and joy rose from the people, and the enthusiasm and joy were indescribable.”

If Mr Khalkhali was a jester, he led a travelling company. When insurrections broke out among Iran's Kurdish, Turkmen and Arab minorities, he went to the affected areas, executing rebels. One witness recalled seeing Mr Khalkhali pick his feet during the trial of a suspected collaborator. Drug-dealers were put to death by dozens. As the executions continued, Mr Bani-Sadr eventually forced him to resign.

Although he was never trusted with executive power, he had a knack for memorable cameos. At the height of the hostage crisis at the American embassy in 1980, American helicopters on a rescue mission crashed in the Iranian desert; Mr Khalkhali appeared on television poking the charred bodies. During Mr Bani-Sadr's impeachment the next year, he stood on the parliament balcony and, as the crowd roared for the president to be hanged, put his chubby fingers puckishly round his own neck.

He spent two terms in parliament as a member for Qom, coarse but widely popular. Until Khomeini died, in 1989, he was unmolested; but after the patriarch's demise he was deemed unqualified to join the clerical Assembly of Experts, which chooses the supreme leader. It was time to retire to Qom, where he taught seminarians in steadily declining numbers. His health suffered. When Mr Naipaul saw him again, in the late 1990s, Mr Khalkhali entered the room “step by dragging step, very small, completely bald, baby-faced without his turban...eyes without mischief now...as though he wished to dramatise his situation and needed pity.”

Such pity had never been shown to his victims. Yet, in other ways, Mr Khalkhali mellowed. At the end of his life, he spoke out in defence of dissidents and lent his support to the reforms of President Muhammad Khatami—reforms designed to make the courts less vulnerable to the whims and passions of judges.

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Overview

Dec 11th 2003
From The Economist print edition

America's unemployment rate fell to 5.9% in November, down from 6.0% in October. Despite this improvement, hopes for a big rise in jobs were dashed. The increase in America's non-farm payrolls was only 57,000 in November, down from 137,000 in October.

America's Federal Reserve left interest rates unchanged at 1.0%, but it became less gloomy about America's **economic outlook**. In its statement, the Fed said that the risks of deflation had fallen and continued to suggest that interest rates would be kept low for a "considerable period".

America's **Dow Jones Industrial Average** rose above 10,000 for the first time since May 2002, before falling back.

Japan's economic growth for the year to the third quarter was revised downward to 1.8%, from 2.3%. As the yen hit a three-year high against the dollar, the Bank of Japan tried to weaken its currency by buying dollars.

Germany's industrial production rose by 0.8% in the year to October.

Also in the year to October, industrial production in **Britain** grew by 0.9%.

Canadian unemployment fell slightly in November to 7.5%.

Unemployment in **Switzerland** hit 4.0%, its highest level in more than five years.

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Output, demand and jobs

Dec 11th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.6	Q3	+ 4.8	+ 2.6	+ 3.8	+ 1.3	Q2	+ 5.3	Q3	5.6	Nov	6.1
Austria	+ 0.7	Q2	+ 1.1	+ 0.7	+ 1.7	+ 2.5	May	– 4.0	Aug	4.5	Oct	4.3
Belgium	+ 0.7	Q3	+ 2.0	+ 1.3	+ 1.7	– 2.9	Sep	– 1.7	Sep	12.5	Nov†	11.6
Britain	+ 2.0	Q3	+ 3.1	+ 2.0	+ 2.7	+ 0.9	Oct	+ 3.7	Oct	5.0	Sep††	5.3
Canada	+ 1.0	Q3	+ 1.1	+ 1.9	+ 3.0	– 0.2	Sep	+ 3.1	Sep	7.5	Nov	7.5
Denmark	– 0.8	Q3	– 1.2	+ 0.7	+ 2.1	– 1.5	Oct	+ 5.5	Oct	6.4	Oct	5.3
France	– 0.2	Q3	+ 1.5	+ 0.2	+ 1.8	– 1.8	Sep	– 2.2	May	9.7	Oct	9.1
Germany	– 0.2	Q3	+ 0.9	nil	+ 1.6	+ 0.8	Oct	– 2.1	Oct‡	10.5	Nov§	10.1
Italy	+ 0.5	Q3	+ 2.0	+ 0.4	+ 1.6	– 1.7	Sep	– 3.4	Aug	8.5	Jul	9.0
Japan	+ 1.8	Q3	+ 1.4	+ 2.6	+ 2.0	+ 3.6	Oct	+ 0.3	Oct	5.2	Oct	5.5
Netherlands	– 1.1	Q3	+ 0.5	– 0.7	+ 1.1	– 0.1	Oct	– 7.4	Aug	5.4	Oct**	4.3
Spain	+ 2.4	Q3	+ 2.9	+ 2.3	+ 2.9	+ 0.6	Oct	+ 2.5	Sep	11.2	Oct	11.4
Sweden	+ 2.0	Q3	+ 1.9	+ 1.5	+ 2.4	+ 0.2	Sep	+ 4.7	Oct	5.1	Oct†	3.7
Switzerland	– 0.6	Q3	+ 1.0	– 0.4	+ 1.4	– 2.8	Q2	+ 2.7	Sep	4.0	Nov†	3.1
United States	+ 3.5	Q3	+ 8.2	+ 2.9	+ 4.2	+ 0.6	Oct	+ 7.8	Oct	5.9	Nov	5.9
Euro area	+ 0.3	Q3	+ 1.5	+ 0.5	+ 1.8	– 1.8	Sep	– 0.6	Sep	8.8	Oct	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q3	+ 3.2	na	na	– 0.1	Oct	+ 5.3	Aug	8.3	Oct†	8.5
Greece	+ 4.5	Q2	+ 0.4	na	na	+ 2.1	Jul	na		na		na
Iceland	+ 2.7	Q2	na	na	na	– 0.3	2002	na		2.7	Sep†	2.2
Ireland	+ 2.1	Q2	na	na	na	– 2.7	Sep	+ 0.1	Sep	4.4	Oct	4.3
Luxembourg	+ 1.1	2002	na	na	na	+ 1.4	Sep	+ 1.2	Jun	4.0	Oct	3.2
New Zealand	+ 2.0	Q2	– 0.5	na	na	+ 2.5	Q2	+ 6.1	Q3	4.4	Q3	5.4
Norway	+ 0.2	Q3	+ 3.3	na	na	+ 3.7	Sep	+ 5.0	Oct	4.7	Q3	3.8
Portugal	– 0.9	Q3	– 2.1	na	na	– 1.0	Oct	– 0.3	Sep	6.3	Q3†	5.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Jul-Sep; claimant count rate 3.0% in Oct. §EU harmonised rate 9.3% in Oct. **Aug-Oct.

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Prices and wages

Dec 11th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.6	Q3	+ 3.2	+ 2.8	+ 2.3	– 0.1	Q3	– 0.2	+ 5.1	Q3	+ 3.6
Austria	+ 1.0	Oct	+ 1.7	+ 1.3	+ 1.1	+ 2.7	Nov	+ 0.5	+ 2.3	Oct	+ 2.3
Belgium	+ 1.9	Nov	+ 1.1	+ 1.6	+ 1.5	– 0.9	Oct	+ 1.5	+ 1.9	Q3	+ 2.1
Britain	+ 2.6	Oct	+ 2.1	+ 2.7	+ 2.5	+ 1.7	Nov	+ 0.9	+ 3.6	Sep	+ 3.8
Canada	+ 1.6	Oct	+ 3.2	+ 2.7	+ 1.7	– 3.8	Oct	+ 2.4	+ 3.1	Sep	+ 2.4
Denmark	+ 1.5	Nov	+ 2.7	+ 2.2	+ 1.6	nil	Oct	+ 0.8	+ 3.6	Q3	+ 3.9
France	+ 2.3	Nov	+ 2.2	+ 2.1	+ 1.6	+ 0.3	Oct	+ 0.8	+ 3.0	Q3	+ 3.5
Germany	+ 1.3	Nov	+ 1.2	+ 1.1	+ 1.0	+ 1.5	Nov	+ 1.1	+ 2.0	Sep	+ 2.6
Italy	+ 2.5	Nov	+ 2.8	+ 2.7	+ 2.2	+ 0.7	Oct	+ 1.6	+ 2.6	Oct	+ 2.1
Japan	nil	Oct	– 0.9	– 0.2	– 0.2	– 0.4	Oct	– 1.6	+ 1.9	Oct	+ 1.3
Netherlands	+ 2.0	Nov	+ 2.8	+ 2.3	+ 1.7	+ 0.8	Oct	+ 2.3	+ 2.4	Nov	+ 3.3
Spain	+ 2.6	Oct	+ 4.0	+ 3.1	+ 2.6	+ 0.6	Oct	+ 1.7	+ 4.2	Q2	+ 4.0
Sweden	+ 1.4	Oct	+ 2.5	+ 2.2	+ 1.6	– 1.9	Oct	– 1.0	+ 2.5	Sep	+ 2.8
Switzerland	+ 0.5	Nov	+ 0.9	+ 0.6	+ 0.6	– 0.3	Oct	– 0.7	+ 1.8	2002	+ 2.5
United States	+ 2.0	Oct	+ 2.0	+ 2.3	+ 1.5	+ 3.4	Oct	+ 0.7	+ 2.1	Nov	+ 3.0
Euro area	+ 2.2	Nov	+ 2.3	+ 2.0	+ 1.6	+ 0.9	Oct	+ 1.1	+ 2.9	Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.3	Oct	+ 1.5	na	na	– 0.9	Oct	+ 0.8	+ 3.9	Q3	+ 4.1
Greece	+ 3.3	Aug	+ 3.5	na	na	+ 2.2	Aug	+ 2.1	na		na
Iceland	+ 2.5	Nov	+ 2.4	na	na	+ 3.3	Nov	+ 6.0	+ 5.5	Oct	+ 5.9
Ireland	+ 2.3	Oct	+ 4.7	na	na	– 8.4	Oct	– 2.4	+ 8.7	Q2	+ 3.5
Luxembourg	+ 1.8	Nov	+ 2.2	na	na	+ 0.4	Sep	nil	+ 2.5	Sep	+ 1.6
New Zealand	+ 1.5	Q3	+ 2.6	na	na	+ 0.1	Q3	– 2.1	+ 2.3	Q3	+ 2.3
Norway	+ 1.4	Nov	+ 2.1	na	na	+ 7.4	Nov	+ 3.2	+ 4.3	Q3	+ 5.0
Portugal	+ 3.0	Oct	+ 4.0	na	na	– 0.8	Oct	+ 1.2	– 1.0	Sep	+ 0.1

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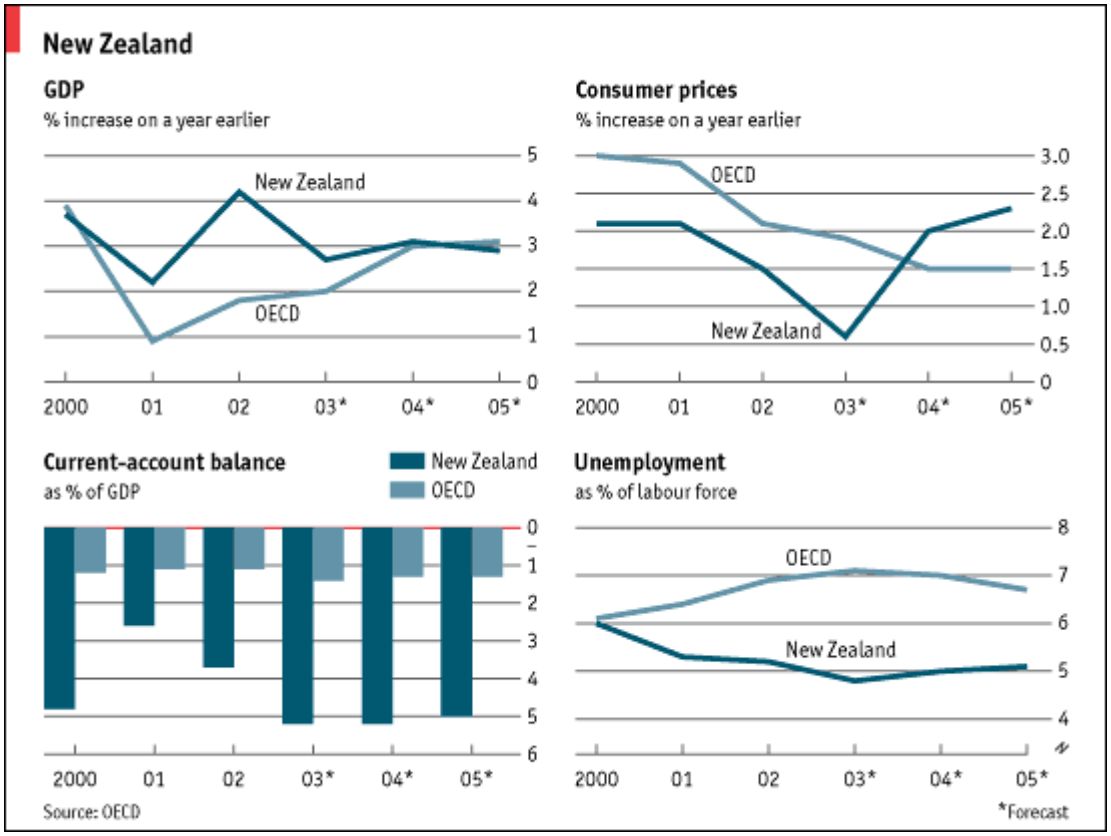
New Zealand

Dec 11th 2003
From The Economist print edition



New Zealand's economy grew at a faster rate than the OECD average during the recent global slowdown. That is thanks partly to a series of liberal economic reforms, such as improving labour-market flexibility and central-bank independence, that the country began around 20 years ago, says the OECD in a new report. During the past decade, these reforms have helped to halt New Zealand's long-term decline in living standards relative to other rich countries. However, the OECD reckons that the country could do more to improve growth and productivity, such as creating a better climate for research and development spending. It also counsels against trying to pick winning industries, as the government seems recently to have been doing by providing grants and tax breaks for the increasing number of feature films being shot on location in the country.

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Money and interest rates

Dec 11th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Dec 10th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.2	Oct	5.46	4.84	5.57	5.86	5.45	6.67
Britain	+ 7.3	+ 7.4	Oct	3.97	3.94	4.40	4.89	4.55	5.62
Canada	+ 4.4	+ 5.7	Oct	2.68	2.69	3.17	4.83	4.97	6.29
Denmark	+ 9.0	+ 9.1	Oct	2.35	3.20	2.91	4.48	4.57	5.53
Japan	+ 5.3	+ 1.6	Nov	0.02	0.02	0.13	1.30	1.00	1.42
Sweden	+ 3.2	+ 6.0	Oct	2.72	3.68	3.14	4.83	4.86	3.86
Switzerland	+27.2	+ 9.8	Oct	0.27	0.68	0.05	2.64	2.25	2.64
United States	+ 7.0	+ 6.0	Oct	1.05	1.31	1.91	4.32	3.99	5.94
Euro area†	+12.5	+ 8.0	Oct	2.15	2.92	2.67	4.29	4.31	4.21

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.15%, Japan No. 256 1.31%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Dec 11th 2003
From The Economist print edition

1995=100

	Nov 25th*	Dec 2nd	Dec 9th†	% change on one month	% change on one year
Dollar index					
All items	86.6	88.4	89.4	+ 2.9	+18.2
Food	85.9	88.3	89.6	+ 2.8	+14.4
Industrials					
All	87.4	88.6	89.1	+ 3.1	+23.7
Nfa‡	89.9	89.4	88.5	– 0.0	+18.4
Metals	85.3	87.8	89.6	+ 5.8	+28.6
Sterling index					
All items	80.5	80.7	81.0	– 1.5	+ 6.7
Euro index					
All items	96.5	96.2	96.4	– 2.8	– 2.2
Yen index					
All items	101.0	102.5	102.2	+ 1.7	+ 2.8
Gold					
$ per oz	392.25	403.25	407.25	+ 4.9	+26.0
West Texas Intermediate					
$ per barrel	29.75	30.74	31.78	+ 2.1	+14.4

* Revised. † Provisional. ‡ Non-food agriculturals.

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Stockmarkets

Dec 11th 2003
From The Economist print edition

Market indices

	Dec 10th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,212.9	3,310.6	2,673.3	– 0.2	– 6.6	+ 8.0	+42.0
Austria (ATX)	1,503.7	1,523.9	1,120.2	– 0.5	–13.4	+30.8	+52.5
Belgium (Bel 20)	2,178.9	2,206.3	1,426.6	– 1.2	–40.8	+ 7.6	+25.5
Britain (FTSE 100)	4,335.4	4,410.0	3,287.0	– 1.3	–37.4	+10.0	+19.3
Canada (Toronto Composite)	7,887.1	7,993.3	6,228.6	+ 0.3	–30.7	+19.2	+44.0
Denmark (KBX)	209.3	222.6	145.0	– 1.4	–30.6	+25.9	+46.6
France (SBF 250)	2,346.7	2,394.4	1,630.1	– 2.0	–46.6	+14.3	+33.3
(CAC 40)	3,438.9	3,501.9	2,403.0	– 1.8	–50.3	+12.2	+30.9
Germany (DAX)	3,820.9	3,875.7	2,203.0	– 1.4	–52.6	+32.1	+54.1
Italy (BCI)	1,269.5	1,286.7	959.4	– 1.0	–41.8	+16.3	+35.6
Japan (Nikkei 225)	9,910.6	11,161.7	7,607.9	– 4.0	–74.5	+15.5	+26.7
(Topix)	980.6	1,105.6	770.6	– 3.5	–66.0	+16.3	+27.5
Netherlands (AEX)	327.8	343.0	218.4	– 3.3	–53.3	+ 1.6	+18.5
Spain (Madrid SE)	778.2	781.0	576.8	– 0.4	–32.1	+22.8	+43.2
Sweden (Affarsvarlden Gen)	183.3	186.3	127.8	– 1.0	–54.2	+26.2	+50.3
Switzerland (Swiss Market)	5,345.1	5,440.7	3,675.4	– 1.8	–36.5	+15.4	+26.3
United States (DJIA)	9,921.9	9,965.3	7,524.1	+ 0.5	–15.4	+18.9	+18.9
(S&P 500)	1,059.1	1,070.1	800.7	– 0.5	–30.7	+20.4	+20.4
(NASDAQ Comp)	1,904.7	1,989.8	1,271.5	– 2.8	–62.3	+42.6	+42.6
Europe (FTSE Eurotop 300)*	933.0	946.2	682.7	– 1.3	–45.3	+ 8.9	+27.0
Euro area (FTSE Ebloc 100)*	806.4	818.8	565.7	– 1.5	–48.0	+12.3	+30.9
World (MSCI)†	983.1	992.3	710.8	– 0.8	–32.1	+24.1	+24.1
World bond market (Citigroup)‡	590.6	591.1	518.6	+ 1.1	– 0.1	+12.4	+12.4

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Dec 11th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2003	Current account The Economist poll % of GDP, forecast 2004	Exchange rate trade-weighted† 1990=100 Dec 10th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Dec 10th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2003‡
Australia	− 14.3 Oct	− 27.2 Q3	− 5.7	− 4.9	87.5	74.6	1.35	1.78	2.36	1.65	1.25	0.8
Austria	− 0.6 Aug	+ 0.5 Sep	nil	− 0.1	102.6§	100.9	0.82	0.99	1.43	–	0.75	-1.3
Belgium	+ 20.7 Sep	+ 11.2 Jun	+ 4.3	+ 4.4	102.6§	100.1	0.82	0.99	1.43	–	0.75	0.2
Britain	− 74.4 Oct	− 28.6 Q2	− 1.9	− 1.7	100.3	105.7	0.57	0.63	–	0.70	0.53	-2.9
Canada	+ 41.5 Sep	+ 16.7 Q3	+ 1.8	+ 1.4	88.2	76.2	1.31	1.56	2.29	1.60	1.21	1.0
Denmark	+ 9.7 Sep	+ 5.3 Sep	+ 2.8	+ 2.7	106.4	103.5	6.08	7.36	10.6	7.44	5.62	0.8
France	+ 5.6 Sep	+ 20.6 Sep	+ 1.4	+ 1.4	106.0§	103.0	0.82	0.99	1.43	–	0.75	-4.0
Germany	+142.7 Oct	+ 58.2 Oct	+ 2.3	+ 2.3	103.5§	100.0	0.82	0.99	1.43	–	0.75	-4.1
Italy	+ 1.6 Sep	− 20.9 Sep	− 1.0	− 0.8	75.6§	73.5	0.82	0.99	1.43	–	0.75	-2.7
Japan	+100.6 Oct	+127.4 Oct	+ 2.9	+ 2.9	136.1	129.8	108	123	189	132	–	-7.4
Netherlands	+ 31.5 Sep	+ 17.7 Q3	+ 2.6	+ 2.8	102.1§	99.2	0.82	0.99	1.43	–	0.75	-2.4
Spain	− 50.5 Sep	− 23.1 Aug	− 2.4	− 2.3	76.9§	75.0	0.82	0.99	1.43	–	0.75	0.1
Sweden	+ 17.8 Oct	+ 14.8 Q3	+ 4.2	+ 4.1	83.1	78.4	7.32	9.02	12.8	8.96	6.76	0.2
Switzerland	+ 6.0 Oct	+ 35.0 Q2	+11.0	+10.9	112.4	114.4	1.26	1.46	2.21	1.55	1.17	na
United States	−542.6 Sep	−528.7 Q2	− 5.1	− 5.3	96.3	113.1	–	–	1.75	1.22	0.92	-4.9
Euro area	+ 84.3 Sep	+ 36.8 Sep	+ 0.4	+ 0.5	91.4	83.2	0.82	0.99	1.43	–	0.75	-2.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.7 Sep	+ 10.0 Sep	na	na	81.5§	79.0	0.82	0.99	1.43	–	0.76	2.6
Greece	− 24.7 Sep	− 10.7 Sep	na	na	59.2§	58.0	0.82	0.99	1.43	–	0.76	-1.6
Iceland	− 0.2 Oct	− 0.2 Q2	na	na	95.0**	93.0	73.4	84.3	128	89.9	67.8	-1.0
Ireland	+ 37.8 Sep	− 2.1 Q2	na	na	94.2§	89.1	0.82	0.99	1.43	–	0.76	-1.0
Luxembourg	− 3.4 Sep	+ 1.5 Q2	na	na	102.6§	100.1	0.82	0.99	1.43	–	0.76	-0.3
New Zealand	− 1.8 Oct	− 2.9 Q2	na	na	102.5	91.4	1.54	1.99	2.70	1.89	1.43	2.6
Norway	+ 28.0 Oct	+ 27.1 Sep	na	na	98.9	106.1	6.65	7.29	11.6	8.14	6.15	9.8
Portugal	− 12.9 Aug	− 7.8 Aug	na	na	93.6**	91.2	0.82	0.99	1.43	–	0.76	-2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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Current-account balance

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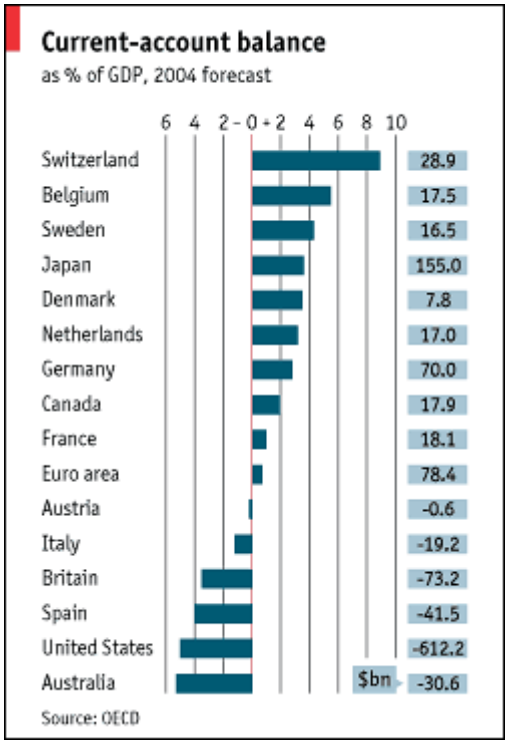

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Overview

Dec 11th 2003
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In the year to the third quarter, GDP rose by 3.4% in the **Czech Republic**, and by a slower-than-expected 4.8% in **Turkey**.

Industrial production is booming in some parts of Asia: in **China,** it was 17.9% higher in November than a year ago, and in **Malaysia** it grew by 11.3% in the year to October. In **Brazil**, however, industrial production rose by only 1.1% in the year to October.

A stronger peso sent **Chile's** consumer-price inflation in the year to November down to 1.0%, well below the central bank's target.

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Education

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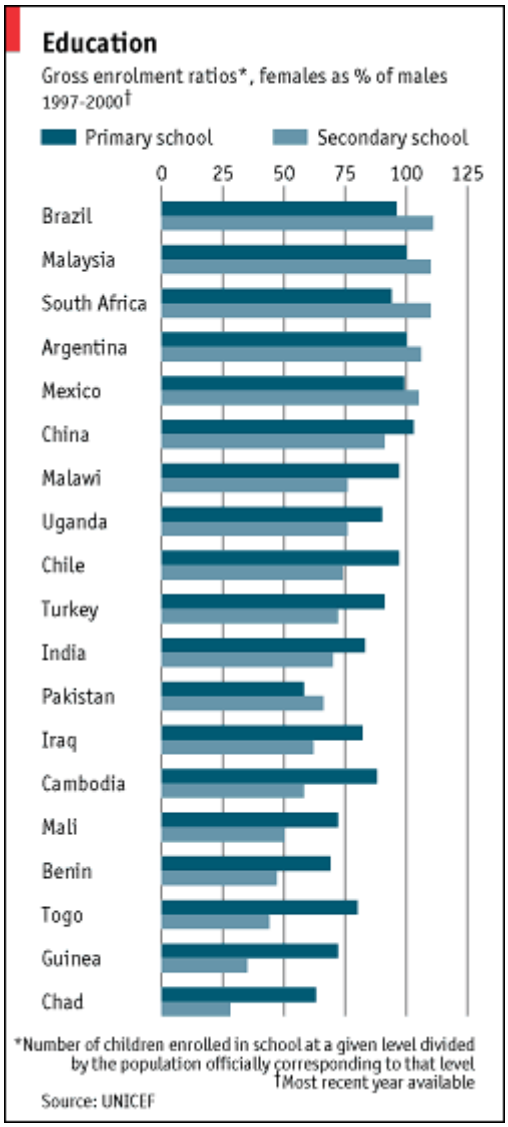
Girls are falling behind boys in school attendance, according to *State of the World's Children 2004*, a new report from UNICEF. An estimated 121m children worldwide are missing out on formal education; 54% of them are girls. In many countries, this gap grows with age because girls are less likely to move on to secondary school. Educating girls not only improves their prospects, but also those of their future children. UNICEF estimates that it would cost $60 billion in external aid by 2015 to ensure universal access to primary education for both girls and boys.



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Economy

Dec 11th 2003
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+17.9	Nov	+ 1.8	Oct	+20.6	Oct	+35.4	2002	383.9	Sep
Hong Kong	+ 4.0	Q3	−12.5	Q2	− 2.7	Oct	− 7.7	Oct	+18.4	Q2	114.1	Nov
India	+ 5.7	Q2	+ 6.5	Sep	+ 3.3	Oct	−13.1	Oct	+ 2.8	Q2	92.2	Nov
Indonesia	+ 3.9	Q3	+ 4.7	Jul	+ 5.3	Nov	+26.1	Oct	+ 6.7	Q1	33.5	Oct
Malaysia	+ 3.5	Q3	+11.3	Oct	+ 1.3	Oct	+18.6	Oct	+10.1	Q2	42.6	Oct
Philippines	+ 4.4	Q3	− 3.7	Sep	+ 3.3	Nov	− 1.4	Sep	+ 2.8	Jul	13.3	Nov
Singapore	+ 1.7	Q3	+19.3	Oct	+ 0.6	Oct	+17.4	Oct	+25.6	Q3	93.9	Nov
South Korea	+ 2.3	Q3	+ 7.4	Oct	+ 3.4	Nov	+14.5	Nov	+ 8.0	Oct	143.2	Oct
Taiwan	+ 4.2	Q3	+ 9.0	Oct	− 0.4	Nov	+17.9	Nov	+28.8	Q3	202.8	Nov
Thailand	+ 5.8	Q2	+12.7	Oct	+ 1.8	Nov	+ 4.3	Oct	+ 8.0	Oct	39.3	Oct
Argentina	+ 7.6	Q2	+10.8	Sep	+ 3.6	Nov	+16.9	Oct	+10.2	Q2	13.5	Nov
Brazil	− 1.5	Q3	+ 1.1	Oct	+11.0	Nov	+23.9	Nov	+ 3.7	Oct	52.7	Sep
Chile	+ 3.0	Q3	+ 1.9	Oct	+ 1.0	Nov	+ 2.8	Nov	− 0.3	Q3	15.8	Nov
Colombia	+ 4.0	Q3	+ 5.6	Sep	+ 6.1	Nov	− 0.2	Sep	− 1.7	Q2	10.5	Oct
Mexico	+ 0.4	Q3	− 0.6	Sep	+ 4.0	Oct	− 6.0	Oct	−10.5	Q3	56.2	Oct
Peru	+ 3.6	Sep	+ 2.6	Sep	+ 1.9	Nov	+ 0.4	Sep	− 1.2	Q3	9.1	Oct
Venezuela	− 7.1	Q3	− 5.0	Sep	+25.6	Oct	+14.6	Q2	+ 8.9	Q3	14.5	Sep
Egypt	+ 3.1	2003†	+ 4.2	2002†	+ 4.7	Sep	− 7.1	Mar	+ 1.9	Q2	13.3	Aug
Israel	+ 2.8	Q3	+ 6.0	Sep	− 2.6	Oct	− 6.4	Oct	nil	Q2	24.4	Nov
South Africa	+ 1.6	Q3	− 2.6	Oct	+ 1.5	Oct	+ 2.6	Oct	− 1.3	Q3	6.5	Oct
Turkey	+ 4.8	Q3	+12.3	Oct	+19.3	Nov	−20.4	Sep	− 4.7	Aug	32.9	Oct
Czech Republic	+ 3.4	Q3	+ 5.2	Sep	+ 1.0	Nov	− 2.3	Oct	− 7.8	Q3	26.0	Nov
Hungary	+ 2.9	Q3	+ 9.9	Oct	+ 5.6	Nov	− 4.3	Oct	− 5.3	Sep	12.6	Nov
Poland	+ 3.8	Q2	+12.1	Oct	+ 1.3	Oct	−10.2	Oct	− 4.0	Oct	32.5	Oct
Russia	+ 7.2	Q2	+ 7.1	Nov	+13.1	Oct	+56.4	Sep	+37.9	Q3	64.4	Nov
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 3.5	Q2	+ 9.1	Oct	+ 1.0	Nov	− 1.9	Oct	− 1.5	Q3	1.2	Oct
Latvia	+ 7.3	Q3	+ 5.0	Oct	+ 3.6	Nov	− 1.9	Sep	− 0.9	Sep	1.3	Oct
Lithuania	+ 8.4	Q3	na		− 1.4	Oct	− 2.4	Oct	− 0.9	Q2	3.1	Oct
Slovakia	+ 4.2	Q3	+ 4.9	Oct	+ 9.8	Nov	− 0.8	Oct	− 1.0	Aug	10.0	Sep
Slovenia	+ 2.1	Q2	+ 1.3	Oct	+ 5.1	Nov	− 0.5	Aug	+ 0.1	Sep	7.9	Sep
Pakistan	+ 5.1	2003†	+ 7.2	Jun	+ 4.2	Nov	− 1.2	Nov	+ 3.6	Q3†	10.0	Oct
Saudi Arabia	+ 1.0	2002	na		− 1.2	Jul	+41.8	2002	+11.9	2002	22.4	Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Dec 11th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Dec 10th		Dec 31st 2002	
	Dec 10th	year ago	Dec 10th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	14.5	na	1,538.7	+1.7	+ 8.4	+ 8.4
Hong Kong	7.76	7.80	13.6	0.41	12,398.4	+0.3	+ 33.0	+ 33.6
India	45.5	48.2	79.4	4.24	5,285.5	+1.2	+ 56.5	+ 65.1
Indonesia	8,494	8,885	14,832	8.73	646.0	+0.3	+ 52.0	+ 60.2
Malaysia	3.80	3.80	6.64	3.03	794.5	−0.1	+ 22.9	+ 22.9
Philippines	55.4	53.3	96.7	8.00	1,360.1	+0.2	+ 33.5	+ 28.8
Singapore	1.71	1.76	2.99	0.69	1,711.2	−1.5	+ 27.6	+ 29.1
South Korea	1,186	1,208	2,071	4.35	794.6	−1.7	+ 26.6	+ 26.7
Taiwan	34.0	34.8	59.4	1.15	5,803.4	−1.4	+ 30.3	+ 33.3
Thailand	39.8	43.4	69.5	1.38	667.1	+1.2	+ 87.1	+102.7
Argentina	2.94	3.51	5.13	4.56	984.7	−2.8	+ 87.6	+114.9
Brazil	2.93	3.80	5.11	17.34	20,972.6	+2.1	+ 86.1	+125.0
Chile	606	697	1,058	2.76	7,195.4	−1.0	+ 43.3	+ 70.5
Colombia	2,814	2,798	4,914	7.94	2,226.0	+0.5	+ 38.4	+ 41.0
Mexico	11.2	10.2	19.6	5.60	8,342.1	−2.5	+ 36.2	+ 27.2
Peru	3.48	3.52	6.07	2.49	2,253.6	+1.4	+ 61.9	+ 63.7
Venezuela	1,598	1,303	2,791	18.29	22,035.5	+1.8	+174.9	+138.6
Egypt	6.17	4.63	10.77	6.89	10,846.7	−0.9	+101.9	+ 51.7
Israel	4.40	4.66	7.68	2.07	495.1	−2.2	+ 48.9	+ 60.9
South Africa	6.45	8.90	11.3	7.35	9,784.1	+0.8	+ 5.5	+ 40.2
Turkey	1,438,500	1,562,500	2,512,053	24.00	16,614.7	+1.4	+ 60.2	+ 84.9
Czech Republic	26.2	30.8	45.8	2.08	613.7	−1.3	+ 33.2	+ 52.9
Hungary	216	234	377	12.30	9,289.3	+3.2	+ 19.1	+ 24.2
Poland	3.80	3.96	6.63	5.68	20,297.6	+2.2	+ 41.3	+ 42.7
Russia	29.5	31.9	51.5	16.00	540.0‡	−1.5	+ 38.9	+ 50.4
EMF (MSCI)*	1.00	1.00	1.75	na	421.8	−0.4	+ 44.4	+ 44.4
EMBI+†	1.00	1.00	1.75	na	290.6	+1.0	+ 27.0	+ 27.0

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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